

The complaint

Mr M complains that HSBC UK Bank Plc lent irresponsibly when it approved his credit card application.

What happened

Mr M applied for a credit card with HSBC in May 2017. In Mr M's application he said he was employed with an income of £30,000. HSBC completed a credit search and found Mr M had two defaults totalling £1,100 that were two years old. HSBC also found Mr M had missed a payment in the previous six months. HSBC also found nine active accounts on Mr M's credit file along with evidence of four credit searches in the preceding six months.

HSBC approved the credit card with a limit of £5,500.

The account fell into arrears around the start of 2021 and was closed in May 2021. A default was recorded on Mr M's credit file.

Mr M went on to complain that HSBC had lent irresponsibly when it approved his credit card application. HSBC didn't uphold Mr M's complaint and he referred it to this service. An investigator looked at what happened and upheld Mr M's complaint. HSBC asked to appeal, so Mr M's complaint has been passed to me to make a decision.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Before agreeing to lend, the rules say HSBC had to complete reasonable and proportionate checks to ensure Mr M could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate.

In this case, HSBC says it took information about Mr M's income from his application, completed a credit search and applied its lending criteria. Our investigator asked HSBC for evidence to support the checks it completed but it's explained its lending criteria is confidential. I've based my findings on the available information.

In response to the investigator, HSBC has given us some general analysis concerning indicators of financial difficulty. HSBC has also told us that at the time of Mr M's application it didn't obtain information about payday loans and used predictive modelling from a credit reference agency.

I've considered the available information and whether HSBC should've completed more comprehensive checks before deciding whether to proceed. HSBC has sent information it found from Mr M's credit file and it shows he had two defaults totalling £1,100 that were two years old when he applied. HSBC also found a missed payment and evidence of four credit searches carried out in the preceding six months. HSBC has told us it didn't obtain information about payday lending at the time. But I think the information on Mr M's credit file should've caused it to complete better checks before deciding whether to approve the application. I note HSBC's comment that the default balance was low value, but I don't agree. In my view, the level of default balance, missed payment and number of credit searches should've highlighted Mr M may not have been able to support further borrowing.

There's no set information HSBC needed to request. It could've asked for evidence of Mr M's income and outgoings, bank statements or a full credit file for example. Mr M has provided a full copy of his credit file which serves to provide a detailed picture of what he owed and his borrowing history. I note the credit file shows Mr M had taken out four new credit cards and over six payday loans in the year before he applied to HSBC. In my view, better checks would've found Mr M couldn't afford to sustainably repay further borrowing and most likely have led HSBC to decline the credit card application. As a result, I'm upholding Mr M's complaint.

It wouldn't be fair for HSBC to report adverse information on Mr M's credit file when it lent irresponsibly. So I also intend to tell HSBC to remove all adverse information recorded about this credit card from Mr M's credit file.

My final decision

My decision is that I uphold Mr M's complaint and direct HSBC UK Bank Plc to settle as follows:

- Refund all interest, fees and charges applied from inception to date of default. If the refund leads to a credit balance, HSBC should pay any excess to Mr M along with 8% interest from the date the overpayment came about, to the date of settlement †
- Remove adverse information recorded on Mr M's credit file in respect of the credit card

† HM Revenue & Customs requires HSBC to take off tax from this interest. HSBC must give Mr M a certificate showing how much tax it has taken off if they ask for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 16 August 2022.

Marco Manente
Ombudsman