

The complaint

Mr T complains that HSBC UK Bank Plc (“HSBC”) provided him with credit he couldn’t afford to repay.

What happened

HSBC approved a credit card application for Mr T in July 2016. They provided a credit limit of £5,500.

Mr T says they were wrong to provide credit as it wasn’t affordable for him.

HSBC disagree. They say that when they approved the credit card application they used a combination of credit reference agency, computer modelling, and self-reported information to assess the application. They say that Mr T’s credit file demonstrated he was managing his credit commitments well; there were no County Court Judgments against him, no arrears on his accounts, and no defaults. They identified £3,200 of unsecured debt on the file but when considering Mr T’s income of £25,000 per year and his likely expenditure, they still thought he would have sufficient disposable income to sustainably afford the credit provided.

Our investigator didn’t agree and thought the credit was unaffordable, so the complaint has been referred to me, an ombudsman, for a final 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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I’ve had this approach in mind when considering what’s fair and reasonable in the circumstances of this complaint.

I don’t think HSBC completed proportionate checks before approving the credit card. They haven’t been able to provide a copy of the credit file they reviewed and have only provided a summary of the data, that suggests only the last six months of activity was considered (although HSBC have suggested they reviewed three years). Mr T has provided a copy of the credit file and that shows that prior to the application he’d missed several payments to other creditors during 2015 and had been over a credit card limit for five consecutive months before December 2015.

Whilst HSBC took into account repayments towards his unsecured debt I can’t see that they considered repayments towards his revolving credit commitments. Once the credit limit on this new card was taken into account they would have reached £8,940.

The FCA’s Consumer Credit Sourcebook (CONC) applies to all credit-related regulated activities. It’s section on Creditworthiness and Sustainability said at the time Mr T applied for the credit card, that a lender must assume the consumer draws down the entire credit limit and it may consider the consumer repays that amount by instalments over a reasonable

period. If Mr T had drawn down the whole credit limit and repaid over a couple of years that instalment would have been about £365. Taking that into account and adding the rent, spend and unsecured credit repayments HSBC had calculated it would have left Mr T with very little disposable income.

The credit file would have demonstrated that he was already using the majority of his credit limit and that there had been some missed payments in 2015. He'd also been over his credit limit on a credit card for five consecutive months in late 2015. I think the overall picture was of a consumer who was already struggling to meet his monthly commitments. I don't think it was therefore responsible for HSBC to extend the credit it did as it wasn't affordable for Mr T.

Putting things right

As I don't think HSBC should have approved the credit card application I don't think it's fair for it to charge any interest or charges. However, Mr T has had the benefit of all the money he spent on the account so I think he should pay that back. Therefore, HSBC should:

1. Refund all interest, charges, and insurances Mr T has paid (which have not already been refunded).
2. If the borrowing is still in place, reduce the outstanding balance by the amount calculated in Step 1.
3. If, after Step 2, there remains an outstanding capital balance, ensure that it isn't subject to any historic or future interest and/or charges. But if Step 2 leads to a positive balance the amount in question should be given back to Mr T with 8% simple interest*.
4. Remove any adverse information they may have reported to Mr T's credit file as a result of the interest and charges.

*HM Revenue & Customs may require the business to take off tax from this interest. If it does, the business must give the consumer a certificate showing how much tax it's taken off if they ask for one.

My final decision

I uphold this complaint and direct HSBC UK Bank Plc to put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 28 September 2022.

Phillip McMahon
Ombudsman