

The complaint

Mr M complains that HSBC UK Bank Plc lent to him irresponsibly.

What happened

Mr M was given a loan of £12,000 by HSBC in July 2019. The loan was due to be repaid in 60 months by monthly instalments of £290.21. The total amount repayable was £17,412.80.

Mr M complained that HSBC lent to him irresponsibly. HSBC didn't uphold the complaint, so Mr M brought his complaint to this service.

One of our investigators looked at the complaint. He didn't think HSBC had carried out reasonable and proportionate checks and said that if it had done, it would have seen that the loan repayment was unlikely to be affordable or sustainable for Mr M.

HSBC didn't agree. It said the checks it had carried out didn't identify any concerns with Mr M's ability to repay the lending.

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.

We've set out our approach to considering unaffordable and irresponsible lending complaints on our website, including the key relevant rules, guidance and good industry practice. I've had this approach in mind when considering Mr M's complaint.

HSBC needed to take reasonable and proportionate steps to ensure that it didn't lend to Mr M irresponsibly. This means it should've carried out proportionate checks to satisfy itself that Mr M could repay the loans in a sustainable way. These checks could take into account a number of things such as the loan amount, the repayment amount and Mr M's income and expenditure.

Mr M stated in his application that he was earning around £25,000 per year. HSBC says it validated this income as being in line with the normal range based on age and employment status. HSBC carried out a credit check and found no external debt. HSBC also carried out an affordability assessment. This included using modelling tools to estimate Mr M's essential monthly spending. HSBC says it calculated Mr M's monthly income as £1,636 (net) with essential monthly expenditure of £364 and housing costs of £292, leaving disposable monthly income of around £980. HSBC says it determined that the loan was affordable for Mr M as he had sufficient monthly disposable income to meet the new loan payment of £298.

I've considered the checks carried out by HSBC. I've also had regard to the amount of the loan and the cost of the repayments, within the overall context of Mr M's financial circumstances.

The amount of the loan was around half of Mr M's declared income. So, even though Mr M

had no external debt, I think the amount of the loan as a proportion of Mr M's income should've prompted HSBC to carry out further checks to verify Mr M's income and expenditure. Mr M had only very recently opened a bank account with HSBC, so HSBC should've carried out further checks to confirm Mr M's income for the period leading up to the loan application.

I don't know what further checks HSBC would have carried out. But I think a reasonable and proportionate check would have been to look at Mr M's bank statements and/or his payslips to check his income and expenditure.

I've looked at Mr M's bank statements for the period leading up to the loan application. During this time, Mr M's average monthly salary was £600. In June 2019, Mr M's essential outgoings were £1200. Based on what I've seen, I think that if HSBC had carried out reasonable and proportionate checks, these would've shown that Mr M wasn't likely to be able to sustainably repay the loan.

I've taken everything that HSBC has said into account. Whilst I agree that Mr M's income increased slightly after the loan was approved, it's clear from his bank statements that his income prior to the loan fluctuated and wasn't guaranteed. I haven't seen anything to suggest that Mr M's income was any less likely to fluctuate once the loan was approved.

Taking everything into account, I don't think HSBC carried out reasonable and proportionate checks. Had reasonable checks been carried out, these would've shown that the lending wasn't affordable for Mr M. So, I think the decision to lend was irresponsible.

Putting things right

Mr M should only have to repay the money he's borrowed. HSBC should refund all interest and charges that Mr M has paid on the loan. It should also remove any negative information from Mr M's credit file.

To settle the complaint, HSBC UK Bank Plc must:

Add up the total amount of money Mr M received as a result of having the loan. The repayments made by Mr M should be deducted from this amount.

(a) if this result in Mr M having paid more than he received, then any overpayments should be refunded along with 8% simple interest calculated from the date the overpayments were made to the date of settlement *

(b) if any balance remains outstanding, then HSBC should arrange an affordable repayment plan with Mr M.

Remove any negative information from Mr M's credit file in relation to the agreement (in the case of (b) this should be removed once the balance has been cleared.)

*HSBC is required by HMRC to deduct income tax from the interest. It should give Mr M a certificate showing how much tax has been deducted if he asks for this.

My final decision

My final decision is that I uphold the complaint. HSBC UK Bank Plc must take the steps I've set out above,

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or

reject my decision before 20 March 2023.

Emma Davy
Ombudsman