

The complaint

Mr G complains that HSBC UK Bank Plc (HSBC) lent to him irresponsibly.

What happened

Mr G had a current account with HSBC. He had an overdraft limit of £5,000. On 28 October 2017, he applied for a loan of £25,000, payable over 98 months – for home improvements. The loan was approved and drawdown on 29 October 2017. Monthly repayments were £338.37. In the following few days, most of the proceeds of the loan was paid to online gambling websites. In October 2018, Mr G repaid the loan and took out a similar loan with another lender.

Mr G complained. He said HSBC shouldn't have given him the loan. He was prone to bouts of extreme gambling and drinking and had told HSBC that. His current account also showed the extent of his gambling. He said he lied about the purpose of the loan to get it – that was a sign of his addiction.

HSBC said Mr G passed all their credit checks. Mr G was assessed to be creditworthy and a good customer. There were no concerns about affordability. And – he made the repayments after the loan was provided up until it was transferred. So – that showed he was able to make the payments. HSBC said they had no record of having been advised of Mr G's gambling addiction. There was no indication that the loan would not be used for home improvements.

Mr G brought his complaint to us. Our investigator said HSBC didn't complete proportionate checks when they agreed the loan. He said HSBC should've taken more steps to build a more detailed picture of Mr G's financial situation, including a credit search. But he couldn't see that had been done. He said that in the days leading up to the loan application, there had been gambling transactions and Mr G's current account went into overdraft. He said any negative information should be removed from Mr G's credit file. And interest paid on the loan should be refunded.

HSBC didn't agree. They described the checks they'd completed when agreeing to the loan. These included data from credit reference agencies – which showed Mr G had no bankruptcies, CCJs, or defaults on his credit file. He had seven other credit agreements, with none opened in the previous six months. All were paid up to date regularly. Mr G passed HSBC's credit score - which placed him in the top 10% of scores. HSBC said Mr G's assessed potential to default was very low. Mr G maintained a current account in credit and the overdraft was repaid within two days of it occurring in October 2017.

Mr G agreed with our investigator's view but asked that the interest paid to the new lender was also refunded; and he asked that the loan be written off.

So – the complaint has come to me to review.

I issued a provisional decision which said:

The crux of Mr G's complaint is that HSBC lent to him irresponsibly. In deciding whether a customer was provided with unaffordable credit or provided with credit irresponsibly, the principles that firms must follow are laid down by the Financial Conduct Authority (FCA) – as set out in its handbook, (CONC) section 5.2. In looking at those, we need to consider:

- Whether the lender completed reasonable and proportionate checks to satisfy itself that the borrower would be able to repay any credit in a sustainable way?
- If reasonable and proportionate checks were completed, did the lender make a fair lending decision bearing in mind the information gathered and what the lender knew about the borrower's circumstances?
- If reasonable and proportionate checks weren't completed, would reasonable and proportionate checks more likely than not have shown that the borrower was more likely than not unable to sustainably repay what they were being lent?
- Was there a point where the lender ought reasonably to have realised it was increasing the borrower's indebtedness in a way that was unsustainable or otherwise harmful and so shouldn't have provided further credit?
- Did the lender act unfairly or unreasonably in some other way?

I looked at the credit checks that HSBC completed. And they did complete risk assessment and affordability checks. They used a range of information including their internal data (from Mr G's current account) and from external credit reference agencies. Mr G was found to have no adverse data, no delinquency on other credit agreements, and he passed HSBC's credit score thresholds easily. HSBC gave further detail of their assessment during our investigation and this showed Mr G's likelihood of defaulting was less than 0.01% - so in other words, he was seen as a good risk to lend to.

HSBC also looked at Mr G's current account and saw he remained in credit, other than for eight days in July 2017. And then – he was within his overdraft limit of £5,000. There was a regular monthly salary of £2,900 going into the account. They worked out Mr G's monthly disposable income as £1,675 – which was enough to meet the loan payments of £338.37.

Having looked at HSBC's checks, I think they fulfilled their obligations under the FCA's guidelines and completed the necessary and proportionate checks.

Mr G provided his credit report to us and I looked at it. It showed that Mr G had seven other credit agreements at the time – credit cards and current accounts. All credit agreements had been paid on time, with no missed payments. So – that confirmed the data that HSBC reported as part of their checks. And – this showed that Mr G was paying his way and meeting his commitments.

I then looked at Mr G's current account statements. Mr G says his gambling payments should've been seen by HSBC and caused them to ask further questions. I can see he paid approximately £14,600 to online gambling firms between March 2017 and May 2017 – i.e. over three months. But equally, he maintained his account in credit during that period. The credit balance was around £3,000 to £4,000 during that time. And throughout 2017, the credit balance averaged around £4,000 to £5,000. I can see that there were several regular and large transfers into the current account – which enabled the gambling payments to be met. But – so as far as HSBC were concerned, I think it was reasonable for them to conclude that Mr G could afford to pay for the gambling and other commitments.

After that period, Mr G did not make any gambling payments from his current account. His account remained in credit (other than for eight days in July 2017 – when the maximum overdraft was only £112 debit, and well within the overdraft limit). And then, on 24 October 2017 – he made payments of £3,000 to online gambling firms. This created an overdraft of £3,179. I've considered whether, in the round, HSBC should've been concerned by this.

And I don't think they should – Mr G's account had been run very well – at least since November 2016 (the earliest statements I've seen). And on the face of it, he could afford all his outgoings, including the gambling payments. I also don't think it's reasonable to expect HSBC to have been concerned about some payments which were made four days before the loan application. I can also see that after four days, the balance on Mr G's account returned to over £10,000 credit - on the day before the loan was drawn. So – if HSBC had been concerned by the four days of overdraft, I think it would've been reasonable for them to conclude that Mr G's account had returned to its normal pattern of working.

Mr G has said he lied to HSBC about the purpose of the loan – which he stated was for home improvements. But – I can see that he made five payments to builders and electricians in the period between June 2017 and October 2017. So when HSBC looked at his current account, it would have been reasonable for them to conclude the loan was for home improvements.

Mr G says he told HSBC about his gambling. I asked HSBC specifically about that. We asked HSBC to look at their customer records for Mr G again – which they did. And they told us that Mr G's records don't show that Mr G told them about his gambling. If there was such evidence, we would've expected them to take that into account – but there isn't.

I can see that in the few days after Mr G drew down the loan from HSBC he spent the money with gambling firms. I was sorry to see that and the effect it must have had on Mr G and his family. But I have reviewed Mr G's complaint and considered what happened here – and I think HSBC did complete proportionate and sufficient credit checks. And – even though there was some evidence of gambling in a three-month period earlier in 2017 – I can see that Mr G could afford this through his salary and transfers into the current account – so it was reasonable for HSBC to consider that Mr G could afford his outgoings.

My role is to come to a balanced decision based on the evidence I've seen from both parties to the complaint – and that's what I've done here. I know Mr G will be disappointed by my provisional decision - which is that I don't intend that HSBC need to take any action here.

Responses to the provisional decision:

Neither HSBC nor Mr G responded with any comments.

I now need to make 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.

As neither Mr G nor HSBC had any comments, my final decision is in line with the provisional decision - which is that I do not uphold this complaint.

My final decision

I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 8 June 2023.

Martin Lord
Ombudsman