

## **The complaint**

Miss A complains that HSBC UK Bank Plc lent to her irresponsibly.

## **What happened**

Miss A took out the following loans with HSBC:

Loan 1 June 2016 £7500 over 48 months

Loan 2 March 2017 £12,000 over 60 months

Loan 3 August 2017 £15,000 over 24 months

Loan 4 June 2018 £13,570 over 36 months

Miss A complained that HSBC had lent irresponsibly. She said that HSBC failed to carry out proper checks before lending to her.

HSBC didn't uphold the complaint. It said it had carried out appropriate checks before lending to Miss A and that the checks showed the loans to be affordable.

Miss A wasn't happy with the response and complained to this service.

Our investigator upheld the complaint in relation to Loans 3 and 4. They said that HSBC had information which indicated that Miss A was increasing her overall level of indebtedness and that further lending was unsustainable.

HSBC didn't agree. It said it had carried out a full affordability assessment which showed that Miss A had enough disposable income to afford the loan repayments.

## **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 complaints about irresponsible and unaffordable lending on our website. I've had this approach in mind when considering Miss A's complaint.

Before agreeing to lend, HSBC needed to complete reasonable and proportionate checks to ensure that Miss A could afford to repay what was being lent. There's no set list of checks that a lender has to complete, but the checks need to take into account factors such as the amount of the loan, the amount of the repayments and the borrowers financial circumstances.

I've thought about whether HSBC carried out reasonable and proportionate checks for each loan. I've looked at the information HSBC obtained from Miss A when she applied for the loans and the information it obtained from the checks it carried out.

## Loan 1

Miss A declared income of £55,000 when she applied for the loan. HSBC validated this as being within the normal range based on Miss A's age, employment status and demographic information.

HSBC carried out an affordability assessment using an industry tool which modelled essential monthly spending such as utility and household expenses. HSBC also carried out a credit search to find out about Miss A's existing credit commitments.

HSBC calculated that Miss A had net monthly income of £3,131 and monthly expenses and credit commitments totalling £997. HSBC felt that Miss A's disposable income was sufficient to afford the loan repayments of £166.84.

Based on what I've seen, I think the checks carried out by HSBC were reasonable and proportionate to decide whether Miss A would be able to sustainably repay the loan.

I've gone on to consider whether the decision to lend was fair. Based on the information I've seen about Miss A's income and expenditure each month. I'm satisfied that Miss A had sufficient monthly disposable income to maintain the loan repayments after all her other financial commitments had been met. There's nothing in the information I've seen to suggest that Miss A was experiencing financial difficulties at the time of the loan application.

## Loan 2

Miss A declared income of £49,678 when she applied for the loan. HSBC verified this income using a third party tool and calculated it to be £2,887 per month.

HSBC carried out an affordability assessment using an affordability tool and carried out a credit search. It calculated that Miss A had monthly expenses of £938. HSBC felt that Miss A's disposable income was sufficient to afford the loan repayments of £217.

I've thought about whether the checks were reasonable and proportionate. Miss A had agreed Loan 1 just 9 months earlier. She advised HSBC that the purpose of Loan 2 was debt consolidation, which included consolidation of the balance under Loan 1. Based on what I've seen, I think the checks were reasonable and proportionate.

I've gone on to consider whether the decision to lend was fair. Based on the information I've seen about Miss A's income and expenditure each month. I'm satisfied that Miss A had sufficient monthly disposable income to maintain the loan repayments after all her other financial commitments had been met. There's nothing in the information I've seen to suggest that Miss A was experiencing financial difficulties at the time of the loan application.

## Loan 3

Miss A declared income of £49,700 when she applied for the loan. HSBC verified this by looking at the credit turnover in Miss A's HSBC current account.

HSBC calculated that Miss A had monthly income of £2,925. It carried out an affordability assessment using an industry tool and carried out a credit search. HSBC calculated that Miss A had monthly expenses of £885. It felt that Miss A's disposable income was sufficient to afford the loan repayment of £647.

I've thought about whether the checks carried out by HSBC were reasonable and proportionate. Loan 2 had been agreed around 10 months earlier. The purpose of Loan 3

Was debt consolidation, which included around £14,100 of debt with HSBC and around £1700 with another lender.

Based on what I've seen, I don't think the checks were reasonable and proportionate. I say this because a pattern was starting to emerge where Miss A applied for repeated consolidation loans within a relatively short period of time. Miss A's debt had increased from £7200 at the time of Loan 1 to £15,800 at the time of Loan 3. This was a significant increase in debt in a short period of time. I think this should have given HSBC cause for concern. It would've been proportionate for HSBC to carry out further checks to verify Miss A's income and expenditure.

I can't be sure of what further checks HSBC would've carried out. I've looked at the information Miss A has provided about her financial circumstances at the time. The bank statements show that Miss A's monthly expenditure was higher than estimated by HSBC. But the most concerning thing, as I've said above, was the significant increase in Miss A's unsecured debt. The amount of income that Miss A was using to repay debt had increased significantly and was at a level which made it unlikely that she would be able to sustainably repay the loan without borrowing again.

Because of this I don't think the decision to approve Loan 3 was fair.

#### Loan 4

Miss A applied for a further consolidation loan around 10 months after Loan 3 was agreed. I've already explained why I think HSBC should've been concerned at the pattern of repeated consolidation loans. So for the same reasons as with Loan 3 I think it would've been proportionate for HSBC to carry out further checks.

I've reviewed the information about Miss A's circumstances at the time of Loan 4. Although her repayment to HSBC would be decreasing, the overall picture is one of a high level of debt repayment as a proportion of income. I don't think the lending decision was fair.

#### **Putting things right**

Miss A has had the benefit of the money she's borrowed, and I think it's fair that she repays this. But I think HSBC should refund the interest and charges that Miss A has paid on Loans 3 and 4.

HSBC should:

Add up the total amount of money Miss A received as a result of being given Loans 3 and 4. The repayments Miss A has made should be deducted from this amount.

If this results in Miss A having paid more than she received, any overpayments should be refunded along with 8% simple interest calculated from the date the overpayments were made until the date of settlement \*

If any capital balance remains outstanding HSBC should arrange an affordable repayment plan with Miss A

Remove any negative information from Miss A's credit file in relation to Loans 3 and 4

\*HMRC requires HSBC to take off tax from this interest. HSBC must give Miss A a certificate showing how much tax has been taken off if she asks for one.

**My final decision**

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 Miss A to accept or reject my decision before 18 July 2023.

Emma Davy  
**Ombudsman**