

The complaint

Mr S complains that HSBC UK Bank Plc lent irresponsibly when it approved his credit card and later increased the credit limit.

What happened

HSBC says Mr S first applied for a credit card in November 2004 which was approved with a credit limit of £4,500.

In January 2021 Mr S applied online to increase his credit limit to £5,500. HSBC says it carried out a review of Mr S' credit file and completed a lending assessment. HSBC says it found nothing of concern on Mr S' credit file and took estimated figures for his outgoings into account. Mr S gave an income figure of £24,000 in his application and HSBC says it approved the increased credit limit on the basis repayments appeared affordable – in line with its lending criteria.

Last year, Mr S complained and HSBC issued a final response. HSBC said it had no records from 2004 when Mr S opened the credit card but didn't mention the credit limit increase in 2021. HSBC didn't uphold Mr S' complaint.

An investigator at this service looked at Mr S' complaint and upheld it. The investigator said there was insufficient information available to show whether the original decision to approve the credit card application in 2004 was reasonable. But the investigator thought the fact there was around 16 years between Mr S' original application and the credit limit increase request HSBC should've done more to verify repayments were affordable for him in the long term. And the investigator said that if HSBC had carried out better checks, like looking at Mr S' bank statements, it would've found further borrowing was unaffordable and most likely decided not to proceed.

HSBC didn't agree and said Mr S' bank statements showed spending on non essential items, including gambling. As HSBC asked to appeal, Mr 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.

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.

Before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks a lender is required to carry out, it just needs to ensure the checks are proportionate when considering things like: the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances.

I agree with the investigator's view that, due to the passage of time, there's no evidence on file to show whether the original lending decision in 2004 was reasonable or not. Both Mr S and HSBC have been unable to provide documents from the time so there's little I can use to verify whether the application checks were reasonable or not. So whilst I've considered Mr S' comments about the original credit card application, I haven't found grounds to uphold this part of his complaint.

As our investigator said, there was a significant gap between Mr S' original application and the credit limit increase in 2021. I understand HSBC asked Mr S for his income during the application process and also used bureau data for outgoings. But I also think it's fair to add that when HSBC completed a credit search it found a small default on Mr S' credit file. And HSBC found Mr S owed around £16,000 against an income of £20,000. When HSBC applied regular outgoing figures to Mr S' income, it left a modest sum each month for disposable income. In the circumstances, I think these factors should've caused HSBC to carry out more comprehensive checks before approving further lending.

HSBC's response to the investigator said Mr S' bank statements showed he non essential spending, including gambling. I think that's an important point. The bank statements available show Mr S was gambling at a reasonably high rate (especially when taking his income into account) in the months before his credit limit increase was approved. In my view, if HSBC had reviewed Mr S' bank statements, it would've found signs of regular gambling in addition to a modest disposable income. And, in the circumstances, I think HSBC would've found increased borrowing wasn't sustainable in the long term and rejected Mr S' credit limit increase application.

As I'm not persuaded that HSBC carried out proportionate checks and I think it's more likely than not it would've declined the credit limit increase in 2021 if it had, I'm upholding Mr S' complaint.

My final decision

My decision is that I uphold Mr S' complaint and direct HSBC UK Bank PLC to settle as follows:

- Rework the account, removing all interest and charges applied to balances over £4,500
- If the rework results in a credit balance, this should be refunded to Mr S along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. HSBC should also remove all adverse information regarding Mr S' credit card from his credit file
- Or, if after the rework there is still an outstanding balance, HSBC should arrange an affordable repayment plan with Mr S for the remaining amount. Once Mr S has cleared the outstanding balance, any adverse information recorded in relation to the account should be removed from his credit file

*HM Revenue & Customs requires HSBC to deduct tax from any award of interest. It must give Mr S a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 5 October 2023.

Marco Manente
Ombudsman