

## **The complaint**

Miss S complains that HSBC UK Bank Plc lent irresponsibly when it approved a loan for £18,000.

## **What happened**

In May 2019 Miss S applied for a loan of £18,000 with HSBC. In the application, Miss S said she was employed part time with an income of £37,124. HSBC says it calculated Miss S had £2,292 available each month. HSBC carried out a credit search and found Miss S owed around £15,900 in other credit commitments – including a credit card with HSBC that had a limit of £4,500 at the time.

HSBC says it applied its lending criteria and approved the loan. In total, HSBC lent Miss S £21,139.12 over 60 months with a monthly payment of £352.

Late last year, Miss S complained that HSBC had increased her credit card limits and approved a loan irresponsibly. HSBC issued a final response on 1 December 2022 but didn't agree it had lent irresponsibly and didn't uphold Miss S' complaint.

An investigator at this service looked at Miss S' loan complaint and upheld it. They felt HSBC should've carried out more comprehensive checks before approving Miss S' loan and thought that, if it had, the application would've been declined. HSBC didn't agree and said it had approached Miss S' loan application in line with the relevant regulations and carried out proportionate checks before deciding to proceed.

In its response to the investigator, HSBC said it had validated Miss S' income as £2,292 per month and that her payments to service credit (including the new loan) totalled £785. HSBC added that taking Miss S' living costs into account as well, she would've been left with £900 a month as disposable income. As HSBC didn't accept the investigator's view, Miss 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, but it 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.

In this case, HSBC says it relied on information Miss S provided about her circumstances in the application form, including her employment and income. I note HSBC says Miss S was employed part time, with an income of £37,124. I'll start by saying, I think that's a relatively high income for a part time role so could've been a trigger point for HSBC to consider verifying the application information.

In its response to the investigator, HSBC said Miss S' existing borrowing was £15,900 when she applied, representing around 43% of her income which showed she had capacity to borrow more affordably. But by approving a loan with a total outstanding balance at inception of £21,139.12, the total outstanding unsecured credit in Miss S' name would've increased to around £37,000 which is in line with 100% of the income figure declared. So by continuing with the loan, HSBC increased Miss S' debt to income ratio from 43% to 100%. Again, I'd expect to see an increase in a consumer's debt to income ratio of that level to have caused HSBC to have considered carrying out further checks before deciding whether to proceed.

HSBC's response to the investigator provided some figures it used for Miss S' outgoings each month. HSBC said that Miss S' payments for credit (including her new HSBC loan) came to £785 a month. HSBC says it calculated Miss S would have £900 a month after her credit commitments and monthly outgoings were factored in. Using HSBC's figures, that means it calculated Miss S' outgoings at around £600 a month. That figure feels low considering Miss S would need to pay her utilities, Council Tax, transport costs, food, clothes and childcare, amongst other regular outgoings.

Taking all the information HSBC had available into account, I agree with the investigator that HSBC should've considered carrying out better checks before deciding whether to approve Miss S' loan. I've gone on to look at what HSBC would've found if it had. HSBC had a number of options, including obtaining evidence of Miss S' income or copies of her bank statements to look at her regular outgoings. Miss S has sent us her bank statements for the period before the loan was approved.

The statements show that whilst Miss S earned broadly in line with the income figure she gave (when taking benefits into account) the amount received varied considerably each month. And Miss S' statements show her outgoings were considerably in excess of the figure HSBC appears to have used. Looking at Miss S' statements, I'm satisfied they show Miss S would struggle to sustainably maintain her existing commitments and outgoings as well as a new loan from HSBC. I'm satisfied that if HSBC had carried out more comprehensive checks it's more likely than not it would've declined Miss S' loan application.

I agree with the investigator that HSBC lent irresponsibly in this case, so I'm going to uphold Miss S' complaint and direct it to refund all interest, fees and charges applied to the loan.

### **My final decision**

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

- Remove all interest, fees and charges from the outstanding loan balance and treat any repayments made as though they had been repayments to the principal sum
- If this results in Miss S having made overpayments, HSBC should refund these with 8% simple interest\*, from the date the overpayments came about to the date of settlement
- If the reworking of Miss S' account results in a surplus, it should be refunded to her

- If the reworking results in an outstanding balance, HSBC should work with Miss S to agree an affordable repayment plan
- HSBC to remove any adverse information recorded on Miss S' credit file in relation to the loan

\*HM Revenue & Customs requires HSBC to deduct tax from this interest. HSBC should give Miss S a certificate showing how much tax you've deducted, if they ask for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 8 December 2023.

Marco Manente  
**Ombudsman**