

## **The complaint**

Mrs E complains that HSBC UK Bank Plc irresponsibly approved a loan application that she couldn't afford to repay.

## **What happened**

In March 2021, Mrs E applied for a loan with HSBC. She already had an existing loan with HSBC which she asked to be consolidated into the new loan. The new loan was to borrow £16,590, of which £12,580.52 went towards settling the existing loan early and the remainder was transferred as cash to her HSBC current account. Mrs E was required to repay 50 repayments of around £455 per month. The total repayable was around £22,700.

Unfortunately, Mrs E had been the victim of a scam and she had sent thousands of pounds to the scammer, including from the funds she received from this HSBC loan. Mrs E raised a complaint against HSBC in relation to the payments she sent from her HSBC current account to the scammer. That complaint has been dealt with by another ombudsman under a different complaint and doesn't form part of the issues I'll be considering. However, I've included information about it here as relevant context to the background of this complaint.

Mrs E then raised a new complaint against HSBC, which is the subject matter of the issues I'm considering. She said that HSBC shouldn't have given her the consolidation loan at all. She said that had it completed appropriate affordability checks before lending, then it would have seen that it would not have been responsible to lend to her. She said that during this time she also held a HSBC credit card and that HSBC acted in lending on the credit card during that time too.

HSBC didn't uphold the complaint. It said that it had carried out appropriate checks before granting the loan and that these checks didn't reveal any concerns about Mrs E's ability to repay the borrowing. It said that Mrs E hadn't made any payments from her HSBC current account to the scammer until after the loan proceeds had been paid. It said that in relation to the credit card, it hadn't increased her credit limit during the time that Mrs E was the victim of a scam, so had not made any lending decision.

Mrs E referred her complaint to our service. HSBC then made an offer to settle the complaint. It said that as a gesture of goodwill, it would agree to Mrs E paying back everything that was owed on the original loan (including all of the additional interest that would have accrued on that loan had it not been consolidated) and only the new capital that she borrowed under the consolidation loan. The net effect of this was that HSBC would write-off £3,435.70 from the consolidation loan, reducing the overall amount Mrs E needed to repay by that much.

Our investigator was of the view that this offer was fair and reasonable. This was because she didn't think HSBC had acted unfairly in granting the consolidation loan in the first place.

Mrs E didn't agree. In summary, she said that HSBC should write-off more interest. She said that she was in a position to offer a lump sum payment to clear her debts, but she didn't have quite enough to cover the amended balance HSBC was proposing. She said that if the

first loan had still been live now (and not been consolidated into the new loan) she would be due an interest rebate on that first loan, if she were to settle it early. She said for that reason it was unfair for HSBC to ask her to repay all the interest on that first loan now. She was also unhappy with adverse reporting on her credit file in relation to the consolidated loan and said HSBC should remove these markers as part of any redress.

HSBC wasn't prepared to make any further offers to settle the complaint and our investigator was satisfied the offer it had made was fair. As Mrs E didn't agree, the complaint has been passed to me for 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.

When Mrs E applied for the consolidation loan, I'm satisfied HSBC would have had no way of knowing that she was the victim of a scam. At that stage she had not made any transfers to the scammer from her HSBC accounts and she told HSBC that the purpose of the consolidation loan was to use the new funds to buy a car.

Before lending to Mrs E, HSBC were required to ensure it completed proportionate affordability checks to satisfy itself that the lending wouldn't cause Mrs E financial difficulty. What is considered proportionate will vary with each lending decision. In deciding what would be proportionate, HSBC needed to take into account things such as (but not limited to): the amount borrowed, the total repayable, the size of the regular repayments, the cost of borrowing and the consumer's circumstances.

As Mrs E already held an existing loan, a credit card and a current account with HSBC, it already had a reasonable amount of information available to it about Mrs E's financial circumstances and ability to repay credit. I would have expected it to take this information into account when assessing the affordability of the new consolidation loan.

As part of the application, HSBC says it was able to verify an annual income for Mrs E of £35,000 per year. It hasn't been clear on exactly how it did this, but that salary appears to have been broadly accurate from the information I've seen from Mrs E's bank statements.

HSBC also completed a credit check which it said showed no adverse information. I've reviewed the check it completed. This shows that Mrs E held around £15,500 in existing unsecured debt and had existing credit limits available to her of nearly £43,000. It showed she had 9 active credit commitments and only one of those had been opened in the previous six months. There had been no arrears, missed payments or other adverse markers recorded on her previous borrowing.

Overall, the credit check revealed no obvious concerns about Mrs E's finances. It showed that despite having access to credit limits on credit cards of nearly £43,000, the balances on those cards had been zero. And the only outstanding unsecured debt she had was her current HSBC loan. Her current accounts had not reported as being overdrawn and she wasn't borrowing excessively.

From reviewing Mrs E's HSBC current account statements at the time of the lending, I've seen nothing contained in those that ought to have caused HSBC concerns about her ability to repay the loan without difficulty. It seems that the majority of Mrs E's essential expenditure was paid out of her HSBC account. She paid an amount of £1,500 each month into the account to cover those costs. This covered her mortgage, priority bills and credit commitments. Mrs E has provided us with an income and expenditure statement and this

broadly confirms that her essential outgoings (excluding food and petrol) was around £1,500 per month.

The consolidation loan was around £180 more each month than the existing loan Mrs E had with HSBC. Therefore, her essential outgoings would effectively be increasing to around £1,680 each month. Mrs E had an income of around £2,300. She's told us she spent around £420 per month on food and fuel. This means that even with the additional monthly repayment to HSBC, she would still have had around £200 in disposable income each month.

Overall, I'm satisfied that HSBC gathered a reasonable and proportionate amount of information to conduct its affordability checks. This is because it was able to confirm her income, completed a credit check to see how she was managing existing credit, and had access to information about essential expenditure. Based on what it could see, I'm satisfied it made a fair lending decision. However, even if I thought HSBC should have done more to review her financial circumstances, I've not seen anything to persuade me that a more detailed affordability assessment ought to have led to a different lending decision.

In relation to the credit card borrowing, I'm satisfied HSBC made no lending decisions around the time that Mrs E was a victim of a scam. This is because it had agreed to provide her with her credit limit many years before (the last limit change was in 2018) and this wasn't changed in any way at the time Mrs E had been scammed. HSBC doesn't make a lending decision each time the credit card is presented for payment. Instead, it decides how much it is willing to lend when it approves a credit limit. As Mrs E's complaint is only about HSBC's lending decisions while she was a victim of a scam, I'm satisfied it didn't make any unfair lending decisions on her credit card at that time.

As I don't think HSBC acted unfairly in lending to Mrs E, I don't think it needs to do anything to put things right. However, I note that HSBC has made an offer to reduce the outstanding balance on Mrs E's consolidation loan by £3,435.70. In the circumstances, I consider this offer to be fair and reasonable. Mrs E is concerned about how the loan has and will be reported on her credit file. HSBC says it is willing to discuss this once Mrs E agrees to a repayment plan for the outstanding balance. As I don't think HSBC acted unfairly in lending to Mrs E, I make no direction in relation to the credit file entries as I've not seen anything to indicate that what it has reported so far is inaccurate. I realise this will come as a disappointment to Mrs E, but I don't think HSBC needs to do anything more.

### **My final decision**

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs E to accept or reject my decision before 7 March 2024.

Tero Hiltunen  
**Ombudsman**