

The complaint

Miss D complains that HSBC UK Bank Plc have treated her unfairly during her application for additional borrowing on her mortgage.

What happened

Miss D took out a mortgage with HSBC that completed in January 2023.

On 31 July 2023 Miss D had a conversation with an adviser at HSBC about further borrowing on her mortgage. She wanted to pay off her unsecured loan and take some additional borrowing for home improvements. She discussed her income and expenditure and a decision in principle was produced for £76,250.

Miss D discussed things with HSBC again on 9 August after she'd got some quotes for the work she wanted to get done to her house. HSBC took more information from Miss D about her needs and preferences, and her current financial circumstances and plans. They submitted the application for the amount Miss D wanted and it was declined. The adviser submitted applications for lower amounts, but the outcome remained the same.

Miss D complained. She was unhappy that within a week she'd been told by HSBC she could borrow more money, and then told she couldn't borrow anything. In that time Miss D had been thinking about the additional works she could get done to her property and had spoken to contractors about how much it would cost. She said if she'd been told in the original call that the borrowing would be unlikely, she wouldn't have done that. She wanted to know what had gone wrong to make the situation change so much. She also wanted HSBC to reconsider the application with someone looking through the numbers properly rather than relying on a computer system.

HSBC issued their final response on 15 August 2023. They said although they initially produced a decision in principle for £76,250, it wasn't guaranteed that amount would be approved after a full application. HSBC were satisfied the adviser had been honest, transparent, and kept Miss D up to date throughout. They said their policies were in place to ensure customers can afford the lending required and all customers are treated fairly. As a gesture of goodwill, HSBC paid Miss D £50 for any upset caused.

Miss D wasn't happy with the response, and she wanted to know the details of the reasons for the decline. HSBC explained that during the application they had input information about Miss D's income, outgoings and mortgage requirements, and that was run through a framework which calculated the disposable income as a percentage of income. The decision was based on that and was given to the adviser with a brief description, but it doesn't give specific points about why it's failed affordability. They said they can't provide that level of detail to customers as it would enable people to manipulate their application and cause fraudulent lending requests. HSBC said they'd given Miss D as much information and support as they were able to.

Miss D brought her complaint to our service. Our Investigator looked into things and explained that she didn't think HSBC had treated Miss D unfairly when considering her application.

Miss D remained unhappy that she hadn't been told the specific reason why HSBC wouldn't lend to her. She said that she had given all the income and expenditure information to the adviser before the decision in principle was produced so it wasn't clear what changed.

The Investigator explained that HSBC had said some of the information taken for the decision in principle was a little different to the full information taken for the application. She said she hadn't just accepted HSBC's commercial decision not to lend, she'd considered Miss D's individual circumstances, HSBC's lending criteria and all the application notes. She was satisfied the lending decision was reached in a fair way. She said it might be worth seeking financial advice regarding some of the specifics about her financial circumstances.

Miss D still didn't think it was fair that HSBC wouldn't tell her specifically why the outcome changed. So she asked for the complaint to be passed to an Ombudsman.

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.

Before HSBC agree to lend funds to a borrower, as a responsible lender they need to ensure that the borrowing would be affordable for them. The rules that HSBC must follow in relation to that are set out in the Mortgages and Home Finance: Conduct of Business sourcebook (also known as MCOB). In summary, before agreeing to lend, lenders need to ensure that the mortgage would be affordable for the borrower over the whole term, taking account of likely future interest rate increases.

Unfortunately, after considering Miss D's application HSBC found that the additional borrowing Miss D needed wouldn't meet the affordability requirements as set by the regulator. So they declined the application. The HSBC adviser referred the decision to her manager and the outcome remained the same. I've seen the internal notes surrounding this application and I'm satisfied it didn't meet HSBC's lending criteria for affordability reasons. I'm not persuaded that decision has been made unfairly.

I appreciate Miss D understands this, but she's concerned that this wasn't identified sooner, which would have saved her a lot of time and effort going through the full application process. She's also unhappy that HSBC haven't explained to her the detailed reasons why the additional lending has been deemed unaffordable.

I appreciate Miss D did give the HSBC adviser information about her income and expenditure before the decision in principle was produced in July. And the outcome of that conversation was that HSBC could potentially lend her over £76,000. But as HSBC explained, that was an indication of what HSBC could potentially lend based on limited information. When a full application is submitted, several factors are considered, including credit scoring, and the borrower's income and expenditure details are put through HSBC's risk framework, including a stress test to account for future rate rises. It's unfortunate that the outcome of that assessment was that HSBC weren't willing to lend to Miss D, but I'm not persuaded the adviser Miss D spoke to ought reasonably to have pre-empted that outcome before the application was submitted.

Lenders aren't required to disclose the reasons for a declined application. HSBC have told Miss D that her application for additional borrowing was declined for affordability reasons.

And specifically, her disposable income. They said they weren't comfortable lending the funds to Miss D if she couldn't comfortably afford it. I know Miss D would like more information about what specifically made the application unaffordable, as it's made her concerned about her finances and she'd like to be able to do something about it. But I'm not persuaded HSBC have acted unreasonably by not sharing more. From looking at the notes, I'm satisfied HSBC have given Miss D as much information as they've been able to.

Whilst I appreciate Miss D will be disappointed with this outcome, I'm not satisfied HSBC have treated her unfairly. I understand it was frustrating that Miss D spent time and effort on an application that wasn't ultimately successful, but I'm not persuaded that was a result of anything HSBC did wrong. If Miss D is concerned about her financial circumstances, there are independent organisations that she can approach for help.

My final decision

Considering everything, for the reasons I've explained, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 9 May 2024.

Kathryn Billings
Ombudsman