

The complaint

Mr B is complaining about HSBC UK Bank Plc because he says it lent irresponsibly by providing him with two credit cards he couldn't afford.

What happened

In March 2013, Mr B applied for two credit cards with HSBC. Both applications were accepted and he was issued with two separate cards, each with a credit limit of £2,000.

HSBC didn't accept Mr B's complaint about this lending, but did confirm no interest has been charged on the cards since June and September 2022.

After the complaint was referred to me, I issued my provisional decision setting out why I believed it should be upheld. My reasons were as follows:

Before lending to Mr B, HSBC was required to carry out appropriate checks to ensure the repayments were affordable and sustainable. To decide whether this requirement was met, the key questions I need to consider in respect of each lending decision are:

- *Did HSBC complete reasonable and proportionate checks to establish that Mr B would be able to repay the credit in a sustainable way?*
- *If so, was the decision to lend fair and reasonable?*
- *If not, what would reasonable and proportionate checks have discovered, and would the decision to lend have been fair and reasonable in light of that information?*

The rules, regulations and good industry practice in place at the time the credit was approved required HSBC to carry out a proportionate and borrower-focused assessment of whether Mr B could afford the repayments. This assessment also had to consider whether the credit could be repaid sustainably. In practice this meant HSBC had to satisfy itself that making payments to the credit wouldn't cause undue difficulty or adverse consequences. In other words, it wasn't enough to simply think about the likelihood of him making payments, it had to consider the impact of the repayments on Mr B.

The affordability assessment and associated checks also had to be proportionate to the specific circumstances. What constitutes proportionate checks depends on a number of factors including, but not limited to, the particular circumstances of the consumer (for example their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of the credit being considered. Even for the same customer, a proportionate check could be different for different applications.

HSBC hasn't provided any evidence of the information it obtained or took into account when deciding whether to accept Mr B's applications. Without this information, I don't

know what checks HSBC carried out at the time and that means I can't reasonably conclude it completed a proportionate affordability assessment.

In view of the amounts being lent, I think a reasonable and proportionate assessment should have included a consideration of Mr B's actual income and expenditure. So I've based my conclusions on bank statements provided by HSBC, which start from February 2020, and a credit report supplied by Mr B that I think demonstrate what information could reasonably have been discovered.

A review of this information shows:

- Mr B's current account was consistently near its overdraft limit of £1,000. I understand the overdraft facility had only been agreed the previous month and the fact he borrowed up to the limit straight away doesn't suggest his finances were being well managed or that it was appropriate to lend further significant amounts so soon.*
- Mr B's credit report shows he already had five active credit card accounts. I understand he used the new HSBC cards to repay the balance on three of these that were then closed, but he was still left with considerable revolving debt spread across four different cards.*
- In addition to the monthly repayments on his multiple credit cards, it's evident Mr B also had two ongoing loans with monthly repayments of £247 and £332. The total repayments on his existing credit accounted for a large part of his monthly income, which appears to have been around £1,800.*

In my view, the evidence shows Mr B was already heavily indebted and his finances were showing signs of strain. If HSBC had seen this information, it's my view that it shouldn't have given him two credit cards offering total credit of £4,000 within a few days of each other.

In reaching this conclusion, I'm conscious Mr B used some of the credit offered by HSBC to pay off other cards and benefitted from an introductory offer that reduced the interest payable initially. But this deal only lasted a short time and I think it's more relevant to note that HSBC's lending decisions still increased the overall credit available to him at a time when I think the evidence shows this was unlikely to be affordable.

It's for these reasons that I'm currently proposing to uphold Mr B's complaint.

Mr B accepted my provisional decision and made no further comment. Despite a reminder from our investigator, HSBC didn't respond within the timescale given and still hasn't.

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.

As neither party has made any further submissions in response to my provisional decision, my findings haven't changed from those I set out previously.

Putting things right

The principal aim of any award I make must be to return Mr B to the position he'd now be in but for the errors or inappropriate actions of HSBC. But that's not entirely possible here as the lending provided can't be undone.

Because I don't think HSBC should have lent to Mr B, I don't think it's fair for him to pay interest or charges on the amount borrowed. But he has had use of the money that was lent, so I think it's fair he repays the amount borrowed (without the addition of interest or charges).

To put things right, HSBC should take the following steps for each of Mr B's credit card accounts:

- Rework the account to remove all interest, fees, charges and insurances (not already refunded) that have been applied since it was opened.
- If the reworking results in a credit balance, this should be paid to Mr B with the addition of simple interest at 8% per year from the date of each overpayment to the date of settlement.

HM Revenue & Customs (HMRC) requires HSBC to deduct tax from any interest. It must provide Mr B with a certificate showing how much tax has been deducted if he asks for one. If HSBC intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

- Or, if after the reworking there's still an outstanding balance, HSBC should arrange an affordable payment plan with Mr B for the shortfall.
- Remove any adverse information recorded on Mr B's credit file relating to this credit, once any outstanding balance has been repaid.

If HSBC no longer owns the debt, it should liaise with whoever does to ensure any payments Mr B has made since moving the account are factored into the calculation of the compensation that's due or the balance that remains outstanding.

I'm satisfied this represents a fair and reasonable settlement of this complaint.

My final decision

For the reasons I've explained, I'm upholding Mr B's complaint. Subject to his acceptance, HSBC UK Bank Plc should now put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 17 July 2024.

James Biles
Ombudsman