DRN-4934679

The complaint

Mr and Mrs A complain that HSBC UK Bank Plc unfairly declined their request for further mortgage borrowing, causing them to remortgage with another lender, incur an early repayment charge and lose their fixed interest rate.

What happened

In 2023 Mr and Mrs A accepted a ‘interest rate switch’ mortgage offer with HSBC. Their mortgage was partly capital repayment and partly interest only. Part of their mortgage – approximately £21,000 – was on a fixed rate and the remainder was on a tracker rate. An early redemption charge (ERC) applied to the part of their mortgage on a fixed rate. The ERC was due to expire, along with the fixed rate, in July 2027. In total they were borrowing approximately £107,000, with a remaining term of approximately 9 Years.

In 2024 Mr and Mrs A wanted to move home. In March 2024 they applied for a total mortgage of approximately £281,000, with a term of approximately 13 years. They appear to have applied on an interest only basis and then part interest only and part capital repayment. The new mortgage was to be on a fixed rate.

HSBC responded to the application asking for further verification of income and investments but said the maximum it was prepared to lend would be £220,250.

Mr and Mrs A complained to HSBC, saying it should accept lump sums from pensions as part of their interest only repayment strategy. HSBC didn’t uphold Mr and Mrs A’s complaint as it found it had made no error. It confirmed its findings to Mr and Mrs A during a phone call on 26 March 2024 and then provided referral rights to this Service in a letter dated 26 March 2024. Mr and Mrs A asked HSBC to review its decision following their detailed explanation of their plans, including growth projections of their investments. But HSBC stood by its decision to decline their application. So, Mr and Mrs A asked us to consider their complaint.

Our investigator didn’t uphold Mr and Mrs A’s complaint. She said she’s seen that HSBC applied its lending criteria fairly and she thought it was reasonable that HSBC applied its early repayment charge when Mr and Mrs A remortgaged to a different lender.

Mr and Mrs A didn’t agree. They said it’s unfair that HSBC has full control over the criteria for additional funds. And they say their request wasn’t unreasonable as it was agreed by other lenders.

As Mr and Mrs A didn’t agree with our investigator’s view, their complaint has been passed to me for 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.

To decide Mr and Mrs A's complaint, I've thought about whether HSBC applied its lending criteria fairly and whether it was reasonable for the ERC to become payable in the circumstances.

Mr and Mrs A have gone to some effort to explain how their mortgage repayment strategy would work. They've explained it clearly, and I can understand why they believe such a strategy should be acceptable to HSBC. They've supported their rationale about the reasonableness of their strategy by saying that it was acceptable to other lenders and has been accepted by the lender they remortgaged to. Again, I understand their logic in that regard.

However, one of the things I can't do is tell a lender who it should lend to and under what circumstances. When a lender sets its lending policy, a significant factor is its willingness to take on risk. That, in turn, is influenced by its interpretation of risk – the level of risk it attaches, in this case, to different types of investment.

Mr and Mrs A have explained that their repayment strategy relies substantially on a stocks and shares ISA and a pension. The level of risk HSBC attaches to those types of investment, again, will be influenced by a number of factors. It may, for example, be that HSBC has seen a significant number of repayment strategies based on those investments fail. Or it may be that HSBC has decided that it is exposed to as much risk as it is prepared to tolerate from those types of investments in other areas of its business. Neither of those may be true, but those examples illustrate why HSBC's lending policy may be different to other lenders.

HSBC has shared with us its internal lending guidance where it applies to stocks and shares ISAs and pensions. I'm not free to go into detail about that here because our decisions are published. But, having carefully considered that, I'm satisfied it matches what Mr and Mrs A were told HSBC could accept as part of a repayment strategy.

HSBC's records indicate that Mr and Mrs A's previously agreed repayment strategy was based on ISAs, and I haven't seen that disputed by Mr and Mrs A. So, I think HSBC's decision not to accept any of the value of Mr and Mrs A's pension fund(s) as part of their repayment strategy is in line with its lending policy, as was its decision to only use half of their current ISA value.

As HSBC declined Mr and Mrs A's request for the further borrowing amount they wanted, Mr and Mrs A remortgaged with another lender to achieve their goals. An ERC applied to the fixed rate part of the mortgage they agreed to in 2023. Their mortgage offer confirms that the fixed rate would run until 31 July 2027 and that an ERC was applicable until that date.

I understand that Mr and Mrs A didn't want to remortgage to a different lender, and that it was HSBC's lending criteria that forced them to do so. But the mortgage offer they agreed to makes no allowance with regard to the application of the ERC in circumstances like this – there are no specified exemptions. While I understand Mr and Mrs A's sentiment, I don't think their circumstances warrant any additional consideration by HSBC. Mr and Mrs A's plan – to move to a specific property and to borrow a specific amount of money for improvements – was one of their choosing. So, it wouldn't be fair for me to conclude that HSBC should be penalised because Mr and Mrs A's plans did not meet its pre-decided lending criteria.

I've thought about Mr and Mrs A's comments around the restrictive nature of HSBC's policy and how it leaves them with no control over HSBC's decision making criteria. But I don't agree that the opposite should be true. I don't think Mr and Mrs A should be allowed to decide the limit of the amount of money HSBC is prepared to lend them, what HSBC's lending criteria should be or when HSBC shouldn't apply its lending criteria. I say that because Mr and Mrs A don't have access to all the information HSBC uses to form its lending criteria. In any event, it isn't the case that Mr and Mrs A have no say in how much they borrow. HSBC merely sets the upper limit, based on its lending criteria – how much of its money it is prepared to lend them. I'm not persuaded there is a practical, fairer way of conducting their lender/borrower relationship.

Overall, I don't think HSBC has applied either its lending criteria or the ERC unfairly. So, I don't uphold Mr and Mrs A's complaint.

My final decision

My final decision is I don't uphold Mr and Mrs A's complaint about HSBC UK Bank Plc.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A and Mrs A to accept or reject my decision before 5 February 2025.

Gavin Cook
Ombudsman