

The complaint

Mr H is unhappy with the information surrounding loan early repayment charges given to him by HSBC UK Bank Plc.

What happened

Mr H successfully applied to HSBC for a personal loan. Several months later, Mr H approached HSBC and asked for an early settlement figure for the loan. When the early settlement figure was received, Mr H was upset to find that he would have to pay interest on the loan for a period after he settled the loan. Mr H felt that this 'closure interest' amounted to an early repayment charge ("ERC") and noted that he had previously been told by HSBC that he could settle the loan early without an ERC being applied. So, he raised a complaint.

HSBC responded to Mr H but didn't feel they'd done anything wrong by applying closure interest to the early settlement figure. HSBC also noted that the application of closure interest to early settlement figures was described in the terms of the loan which Mr H had agreed to. However, HSBC acknowledged that one of their telephony agents hadn't provided as clear an explanation of closure interest to Mr H as they reasonably should have done, and they apologised to Mr H for this and offered to pay him £75 compensation as a result. Mr H wasn't satisfied with HSBC's response, so he referred his complaint to this service.

One of our investigators looked at this complaint. They also didn't feel HSBC had acted unfairly by applying closure interest. But they felt that HSBC could have explained closure interest to Mr H more clearly than they had, and felt that the £75 compensation HSBC had offered to Mr H didn't take full account of the frustration and inconvenience Mr H had experienced as a result. As such, our investigator said that HSBC should pay an increased amount of £150 compensation because of what happened.

HSBC accepted the recommendation put forward by our investigator, but Mr H remained dissatisfied. And because Mr H remain dissatisfied, the matter was escalated to an ombudsman 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.

Mr H feels that HSBC's application of closure interest to the early settlement quote amounts to an ERC. And Mr H feels that HSBC's literature surrounding personal loans explains that an ERC shouldn't be applied to an early settlement quotation.

I can appreciate why Mr H may feel that the application of closure interest to an early settlement figure amounts to an ERC. But I don't agree with Mr H in this regard.

When HSBC arranged the loan for the Mr H, the total interest payable on the loan was calculated and that total interest amount was then added to the capital loan amount. For instance, in Mr H's case, the capital loan amount was £12,500, while the total interest

payable on that £12,500, during the three-year term of the loan, was £2,588.99. This meant that the total amount payable on the loan, should Mr H have maintained the loan for the full three-year term, was £15,088.99.

Importantly, this £15,088.99 was payable by Mr H from the moment the loan commenced. And when Mr H requested an early settlement quotation from HSBC, they calculated how much interest they would remove from the £15,088.99 total amount payable, because Mr H was wanting to repay the loan early.

In consideration of this point, I don't feel that closure interest can reasonably be thought to be an ERC. This is because an ERC is an additional charge (money that wasn't charged previously) added to a balance, whereas closure interest is interest that had already been calculated and agreed to by the loan recipient (money which was already present within the loan calculation) but which isn't then removed as part of an early settlement calculation.

Mr H has quoted a page of HSBC's website, in which the following statement is made:

"If you have an HSBC Personal Loan, you can repay all, or part, of the loan with no early repayment charge."

Because I don't feel that closure interest can reasonably be considered to be an ERC, I don't feel that HSBC's statement that they don't charge an ERC on early settlement quotes is unfair or unreasonable. Additionally, I note that on HSBC's website, the page that describes personal loans explains as follows:

"If you make an early repayment [to a personal loan] there may be a reduction in the amount of interest you'll have to pay, and this will be reflected in the settlement figure. The settlement figure will include interest up to the date which is 28 days after you tell us you want to repay the loan, plus an additional month."

I also note that this information is repeated in the loan agreement that Mr H signed and agreed to when accepting the personal loan from HSBC, as follows:

"If you repay the loan in full, the overall cost will usually be reduced... The formula works as if we charged interest at the rate that applies to the loan from the date we gave you the loan to the date which is 28 days after you give us notice [that you want to repay the loan early], plus an additional month is your loan is repayable over a period of more than 12 months."

And the loan agreement that Mr H signed then gives an example of how this would work, as follows:

"For example, if the loan is for 36 months and you give us notice on 1 September that you want to repay the loan on 14 September, the amount required to repay the loan will include interest up to 29 October."

Mr H has said that he's found the explanations provided by HSBC about closure interest to be confusing, and he's frustrated that no one's been able to explain it in simple terms. But the application of closure interest to a personal loan early settlement quotation is not a simple matter. Rather, it's a relatively complicated mathematical exercise. And so, I don't feel that Mr H finding the matter to be confusing is any fault of HSBC's, but instead is a result of the subject matter itself being complicated and naturally relatively confusing.

However, in their response to Mr H's complaint, HSBC accepted that their agents could have explained matters to Mr H more clearly than they did. And HSBC have accepted the

recommendation put forward by our investigator to pay an increased compensation amount of £150 to Mr H because of this.

Upon consideration, a payment of £150 compensation by HSBC to Mr H for not providing him with as clear an explanation of closure interest as they feel they should have done feels like a fair outcome to this complaint to me. And so, while I will be upholding this complaint in Mr H's favour, I'll only be doing so to instruct HSBC to pay the £150 to Mr H that they've already agreed to pay.

But to reiterate, I don't feel that HSBC have acted unfairly by applying the closure interest to Mr H's early settlement quotation for the reasons explained above, which include that I'm satisfied that the application of closure interest was described in the terms of loan agreement that Mr H signed and agreed to, and that closure interest should not reasonably be considered as being equivalent to an ERC.

Finally, I note that Mr H has said that he feels he was mis-sold the personal loan by HSBC on the basis that closure interest wasn't clearly explained to him. However, given that the application of closure interest was outlined and explained in the loan agreement that Mr H signed and agreed to, I do not uphold this aspect of Mr H's complaint.

Putting things right

HSBC must pay £150 to Mr H.

My final decision

My final decision is that I uphold this complaint against HSBC UK Bank Plc on the basis explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 26 September 2024.

Paul Cooper
Ombudsman