

The complaint

Mr B complains that he wasn't offered the representative rate when he applied for a personal loan with HSBC UK Bank Plc.

What happened

Mr B applied for a personal loan with HSBC which was advertised with a representative rate of 6.4%. As part of the application process, Mr B chose a term and amount which matched his budget of £300 per month.

Having completed the application, Mr B was offered a rate of 10.9%. The higher APR meant that the monthly repayments had increased to £337. Mr B says there was no option to increase the term of the loan in order to reduce the monthly payments back down to his budget of £300 per month. Mr B says he was reluctant to exit the application as he didn't want a second credit search being carried out if he applied for another loan and says there was no option to save his application and decide later so he clicked continue and completed the loan application.

Mr B complained to HSBC. He asked for an explanation of why he didn't receive the representative rate. He also asked for the loan repayments to be adjusted to his budget of £300 per month.

HSBC didn't uphold the complaint. In its final response it said that any rate provided at the quotation stage was indicative and could only be confirmed once a full application and assessment had been completed. HSBC said it offered personal loan rates based on a customer's individual financial circumstances taking into consideration a number of factors including information provided at the time of the application, details already held about a customer and information obtained from the credit reference agencies. HSBC said it used credit scoring to determine what interest rate it could offer. It said there will be some customers who don't meet the criteria for the advertised rate but rather than decline an application it may offer a higher APR. HSBC acknowledged Mr B's concerns about the online application system and said it welcomed his feedback.

Mr B remained unhappy and brought his complaint to this service.

Our investigator didn't uphold the complaint. He said he was satisfied that HSBC had applied its lending criteria fairly before offering Mr B the rate of 10.9%.

Mr B didn't agree. He said he didn't think the investigator had fully understood the complaint. He said that after the rate of 10.9% was offered to him, there were no options available to him to extend the term or reduce the payments back down to his budget. Mr B said he also wanted to understand why he was not within the 51% of customers who are offered the representative rate. He said he'd subsequently been offered the representative rate with another lender. Mr B said his preferred resolution had changed now as he'd refinanced the loan with another lender. He said to resolve the complaint he would like the interest he'd paid on the HSBC loan to be refunded.

Because Mr B didn't agree I've been asked to review the complaint.

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.

I know it will disappoint Mr F, but I agree with the investigators opinion. I'll explain why.

I've read and considered the whole file, but I'll concentrate my comments on what I think is relevant. If I don't comment on any specific point its not because I've failed to take it on board and think about it but because I don't think I need to comment on it in order to reach what I think is the right outcome.

I'll address Mr F's concerns that he wasn't offered the representative rate first.

Mr F applied for a personal loan which was advertised at a representative rate of 6.4%. However, Mr F was offered a loan at a rate of 10.9% APR. Mr F wants an explanation of why he wasn't offered the representative rate. He's made the point that he's been a customer of HSBC for many years and has held and repaid more than one personal loan with them during this time with no missed payments. Mr F says he's always been offered the representative rate in the past.

This service is an informal complaint resolution service. It's not within our remit to regulate a provider of finance. Only the Financial Conduct Authority can do this. Therefore, I'm not able to look at the criteria which HSBC apply in order to decide whether to make a loan available to a customer and on what terms. Nor am I able to require HSBC to disclose the information which informed their credit score and how it decided on the rate to offer to Mr F. This information is commercially sensitive.

What I can do is look at the loan application and determine whether those criteria have been applied fairly and reasonably.

Based on what I've seen, HSBC provided clear information at the start of the loan application journey that the representative rate is subject to change. Mr F would have been presented with the following information:

The rate is subject to change and the representative APR may not be the rate you'll receive. We'll offer you a rate based on our assessment of your personal financial circumstances. The maximum APR you could be offered is 22.9%”

In addition, HSBC made it clear that the APR may vary based on the amount borrowed. It provided a calculator on the loans interest rate table for more details.

From what I can see, Mr F understands that the representative rate isn't guaranteed but has correctly observed that the representative rate must be the rate that the bank expects to offer to at least 51% of customers. Mr F says he has perfect or near perfect credit and so does not understand how he did not fall within the 51% who would be offered the rate of 6.4%.

I can understand why Mr F would believe that his credit standing means that he should have received the representative rate, but HSBC has explained that it offers personal loan rates based on customers individual financial circumstances. HSBC looks at a range of information covering account performance with it and other lenders and gathers an overall financial picture using data that all financial providers share with each other. The rate given

depends on a number of factors, and lenders have their own interpretations of the information they consider. Lenders criteria and interpretations may change from time to time, which means that just because a customer has received the representative rate from a lender previously doesn't guarantee that they will receive it in a subsequent application.

Like all lenders, HSBC is entitled to set its own lending criteria. I haven't seen any evidence that it hasn't followed its processes or that it has applied the criteria unfairly to Mr F, so I won't be asking HSBC to change its decision about the rate offered to him.

I've gone on to consider the points which Mr F has made about the application journey. He's unhappy that he wasn't able to amend his application (for instance by increasing the term) after the APR had been offered.

This service asked HSBC whether it was possible for a customer to adjust the term of the loan to change the monthly payment amount after the APR had been generated. HSBC explained that a customer is not able to adjust the term of a loan to change the monthly payment amount after a rate has been generated. It said that any changes to the loan would require a further application, which in turn would result in another credit check. HSBC also said that there was a 14-day cooling off period which a customer could exercise should they wish to change their mind about the lending.

Mr F has said that when completing the application, there was an option to set the monthly payment, which he chose to set at £300. However, when he received his quote, this gave a monthly payment of £337. Mr F thinks its unfair that he wasn't able to adjust the term at this stage without having to do a new application.

I've reviewed a demo of the online banking application which Mr F would've used. This was provided by HSBC. I can see that the figures at the start of the application are example figures based on the representative rate. The information states that the rate offered could be higher after the customers financial circumstances have been assessed and a credit check completed.

I can see from the demo that a customer can choose a monthly repayment figure by adjusting the amount and the term. However, its clear from the screen that the amount will be based on the representative rate, which isn't guaranteed.

I understand that Mr F was disappointed that he wasn't able to change the term after receiving the APR. However, he could have chosen not to proceed with his application at that stage and run the application again inputting a longer term. I appreciate that he was reluctant to do this as it would have involved a further credit check.

Mr F has said that he would've been given the option to amend the term if he'd gone to a broker. I haven't seen any evidence to support this so I'm unable to comment. But even if Mr F is right about that, I'm only able to look at the circumstances of this complaint, which involved a loan application directly to HSBC.

Having reviewed everything, and for the reasons I've explained above, I haven't found any evidence to suggest that the loan application process was unfair, or that Mr F was treated differently to any other applicant. Therefore, I won't be asking HSBC to do anything further.

My final decision

My final decision is that I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or

reject my decision before 6 January 2025.

Emma Davy
Ombudsman