

The complaint

Mrs S complains that the way in which HSBC UK Bank Plc ("HSBC") is allocating her loan repayments between capital and interest is resulting in her being treated unfairly.

What happened

Mrs S was given a loan by HSBC in January 2024. Mrs S borrowed £15,000 that she agreed to repay in 60 monthly instalments of £355.69. At the outset of the loan HSBC calculated that Mrs S would need to pay interest of £6,341.27 on her borrowing meaning that the total repayments of capital and interest she would need to make totalled £21,341.27. That information was set out for Mrs S in a regulated credit agreement that she signed.

During the early months of the loan Mrs S made all her contractual repayments on time. But she also asked HSBC to provide her with early settlement quotations. Mrs S complained that those quotations showed that HSBC was allocating most, or perhaps all, her monthly repayments to the outstanding interest rather than reducing the principal she'd borrowed. And she said that some settlement quotations showed an increase in the amount she owed when compared with an earlier quotation.

HSBC didn't agree with Mrs S' complaint. It explained that it had acted in line with the credit agreement Mrs S had signed. It said that her repayments had been allocated to both capital and interest, but since the interest due at the start of the loan was greater, the amount of Mrs S' repayment allocated to that part of the loan balance was similarly larger. And it told Mrs S that the early settlement quotations would take account of forthcoming repayments, so their timing would affect the ultimate value. Unhappy with that response Mrs S brought her complaint to us.

Mrs S' complaint has been assessed by one of our investigators. He said he had seen no evidence to suggest HSBC was administering Mrs S' loan repayments incorrectly. He thought that, over the planned term of the loan, Mrs S' repayments would clear the entire outstanding balance. And he noted that Mrs S' outstanding balance continued to reduce after each repayment had been made. So the investigator didn't think the complaint should be upheld.

Mrs S didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Mrs S and by HSBC. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words

I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

Mrs S was provided with a loan through a fixed sum loan agreement. That is a regulated agreement that means we are able to consider complaints about it.

The agreement that Mrs S signed set out that she was borrowing £15,000. But Mrs S agreed to pay interest on her borrowing. For ease, HSBC calculated the interest that would be due over the term of the loan so that amount could be shown to Mrs S at the outset. That meant that the amount Mrs S would need to repay to HSBC would be a total of £21,341.27 divided into 60 repayments of £355.69.

Each repayment Mrs S made comprised both capital and interest. But, at the start of the loan when the outstanding capital balance was higher, the interest Mrs S needed to pay each month was also greater. So a larger portion of each repayment she made in the early part of the loan would be used to repay interest rather than reduce the capital that she had borrowed. That is entirely normal in loans of this type and was explained to Mrs S as part of the credit agreement she signed. The agreement said that;

“Your monthly repayments will pay off the sum of interest and the loan amount in different proportions each month. Towards the start of your loan, your monthly payments will pay off more interest, and towards the end of the loan they will pay off more of the loan amount.”

I've looked at the schedule that HSBC has provided to us and Mrs S showing the allocation of her repayments. I think that reasonably shows the interest that has accrued each month, and so the proportion of any repayment that is available to reduce the capital balance. So I am satisfied that HSBC has treated Mrs S' repayments correctly.

With a loan of this nature, a consumer is afforded the right to repay the entire outstanding balance earlier than the agreed end date of the loan. But what that would mean is that the outstanding balance (comprising both capital and interest) will need to be reduced to remove any interest that would have been due on the borrowing after the date of the early repayment.

This saving is called a rebate. If a rebate is due, the lender will apply a mathematical formula which is set out in The Consumer credit (early settlement) regulations 2004 to work out what the rebate should be. The regulations are there to protect borrowers to make sure they don't pay more than they need to, especially if they repay a loan very early in its term.

The formula works out how much of the amount borrowed is left to be repaid and how much of the future interest and charges will no longer need to be paid, if the loan is settled by the settlement date. But a borrower has 28 days after being provided with a settlement figure to make that final repayment. So a lender would need to take account of any interest that might accrue during that time, and any repayments that might be contractually due, when calculating the final settlement amount.

I have seen that Mrs S has requested a number of settlement figures – some just a few days apart. As HSBC has explained to her, the timing of those requests will sometimes influence the settlement amount she is required to pay. And, for the reasons I have given above, the settlement amount might actually increase depending on the proximity of the quotation date to a contractual repayment.

I've looked carefully at the various settlement quotations Mrs S has provided to us. I think the amounts she has been asked to pay are in line with the principles I have set out here. I haven't seen anything to make me think that HSBC has treated her unfairly when completing the required calculations.

I appreciate how disappointing this decision will be for Mrs S. But I am satisfied that HSBC has treated her fairly and in line with the terms of the regulated agreement that she signed. I think the repayments Mrs S has made have been reasonably used to repay the interest accrued that month on her borrowing, and then some of the outstanding capital. So I don't think HSBC needs to take any action in regard to this complaint.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against HSBC UK Bank Plc.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 8 April 2025.

Paul Reilly
Ombudsman