

The complaint

Mr B complains that HSBC UK Bank Plc lent to him irresponsibly.

What happened

Mr B applied for and received the following loans from HSBC:

	Date	Amount	APR	Repayment	Term	Total Payable
Loan 1	23 March 2020	£5,000	15.9%	£451.09	12 months	£5,413.12
Loan 2	10 Sept 2020	£10,000	3.3%	£430.90	24 months	£10,341.76

On 21 May 2023, Mr B complained to HSBC as he felt the loans had been given to him irresponsibly. He said he was in financial difficulty and the loans made his situation worse. HSBC looked into his complaint. It didn't address Loan 1 in its response. But it said when he applied for Loan 2, he'd wanted to repay Loan 1, his overdraft and two credit cards with HSBC and a credit card he had elsewhere. He'd initially asked to repay the loan over 12 months.

Mr B's application was considered, but HSBC's underwriters felt it would be better for him over 24 months as it would reduce his repayments. It agreed a much lower interest rate, reduced his overdraft from £1,000 to £50, and reduced his credit card limits to £500. HSBC said it thought the loan had been affordable for him at the time and helped to reduce the financial pressure on him.

Mr B didn't accept HSBC's response, so he referred his complaint to our service and one of our investigator's looked into it. Our investigator said he felt the loans were unaffordable for Mr B, so he upheld the complaint. He recommended that HSBC should refund the charges and interest Mr B had paid on the loans, and reach a suitable repayment plan with him for any residual balance.

HSBC hasn't responded to our investigator's opinion of the complaint, but Mr B has. He rejected what our investigator said and asked for the balance to be written off. As there was no agreement, the 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.

Having done so I reached a different conclusion from that of our investigator, so I issued a provisional decision saying:

“Background to Mr B's borrowing history with HSBC

Mr B opened a current account with HSBC in February 2020 and applied for an overdraft of £1,000. He used the overdraft very quickly by making payments to his credit cards elsewhere.

In March 2020 Mr B applied for two credit cards with HSBC. He used them to transfer balances from his external credit cards. These balance transfers totalled approximately £3,500 and were interest free for a period of time.

Mr B also applied for Loan 1 - £5,000 – in March 2020. This enabled him to repay a loan he had elsewhere for around £3,200 which, while the repayments were lower, was at a higher interest rate. The remainder of the loan cleared the overdraft he'd built up pending his salary which arrived in April 2020, and made his usual payments to his external credit cards – presumably tidying up residual interest on those accounts.

Then in September 2020, Mr B applied for a consolidation loan of £1,000 initially. The application was 'suspended' while it was referred to underwriters. The notes show they wanted to understand more about Mr B's financial circumstances. Ultimately a loan of £10,000 was agreed. As mentioned above, the loan was used to refinance all the borrowing Mr B had with HSBC and spread the cost over two years. This had the effect of lowering his loan repayments, substantially reducing his credit card repayments and essentially clearing his overdraft, and credit cards. Loan 2 was significantly less expensive than Loan 1 too.

I've mentioned the background of Mr B's relationship with HSBC because it informs my decision about his loans.

Irresponsible lending

To be clear, my decision relates solely to the decisions to agree the loans for Mr B – the overdraft and credit card lending has been considered separately. We've set out our approach to complaints about unaffordable and irresponsible lending on our website – including the key relevant rules, guidance, good industry practice and law. I've considered this approach when deciding this complaint.

HSBC needed to carry out reasonable and proportionate checks to ensure that it didn't lend to Mr B irresponsibly. I think there are key questions I need to consider in order to decide what is fair and reasonable in the circumstances of this complaint:

- *Did HSBC carry out reasonable and proportionate checks to satisfy itself that Mr B was in a position to sustainably repay the loans?*
 - *If not, what would reasonable and proportionate checks have shown at the time?*
- *Did HSBC make a fair lending decision?*
- *Did HSBC act unfairly or unreasonably towards Mr B in some other way?*

It's not about HSBC assessing the likelihood of it being repaid, but it had to consider the impact of the loan repayments on Mr B.

Did HSBC carry out reasonable and proportionate checks?

It appears Mr B was a new customer to HSBC and he was transferring his banking to it, starting with his current account and then his borrowing. This explains the activity which took place in February and March of 2020. From what I can see, he declared he was working full time on a salary of £32,500, single, had no dependants and was living with parents.

So HSBC had a reasonable amount of information about Mr B and enough to help it to carry out what I consider would have been reasonable and proportionate checks on his applications for the loans.

Did HSBC make a fair lending decision?

Loan 1

The majority of Loan 1 was to be used to repay a loan he had with another provider who I'll refer to as 'A' for ease.

Mr B has provided a copy of his credit file which shows some of the detail of the loan he held with A. It shows he had to pay £247 per month for 18 months. A's website has a loan calculator which I've used to find out more about that loan. It suggests it was for £3,000 over 18 months and would have been likely to attract an APR of 69.9% with interest payable of £1,446.40 should the loan have run its term. In contrast, Loan 2 would cost Mr B 15.9% APR and £413.12 interest in cash terms.

So given the information HSBC knew about him, I think it reached a fair decision to lend to Mr B. While his repayment went up, the benefit to him in the longer term of the reduced interest and repaying borrowing such as the credit cards he had elsewhere and his overdraft, would be significant.

Loan 2

Mr B had found it difficult to meet payments to Loan 1 alongside the HSBC credit card commitments and was using his overdraft regularly. I suspect this is the reason for his application for a loan of £1,000 being referred to the underwriters.

I can see from the notes that the underwriters had a very thorough look at Mr B's finances and came up with a plan to consolidate all his HSBC borrowing into one loan. It reduced the monthly loan repayment by around £20 as well as clearing the overdraft and credit cards. The overall cost in terms of interest reduced too from £413.12 in cash terms of Loan 1, to £341.76 – despite being over a longer term. HSBC also reduced Mr B's overdraft to £50 and his credit card limits to £500 to help keep his borrowing under control. I note Mr B applied to increase his credit limits shortly after taking out Loan 2 but these applications were refused.

I think HSBC made a fair decision to agree this loan for Mr B. I say this because it reduced his repayments - especially when factoring in his credit card repayments – and significantly reduced the cost of the finance for Mr B.

Did HSBC act unfairly or unreasonably towards Mr B in some other way?

I've carefully read and thought about all the evidence provided by each party to this complaint. Having done so, I don't think HSBC has acted unfairly or unreasonably towards Mr B in some other way.

I appreciate what I've said will come as a disappointment to Mr B. It may help if I explain that even if I did think HSBC had lent to him irresponsibly, I don't think I'd be able to award him a refund of interest and charges.

I say this because the purpose of the awards we make in complaints of this nature, are to try to put the consumer in the position they would have been in had the lending not been agreed (as far as possible). We do this by refunding money they wouldn't previously have had to pay.

In this case, HSBC lent very little new money to Mr B – the vast majority was lent to repay finance he already had. The loans agreed were significantly cheaper than the finance they repaid. So if HSBC hadn't agreed the loans for Mr B, he would have still owed the money to

other businesses and would have had to pay charges and interest at a much higher rate. He hasn't therefore suffered a financial loss as a result of these loans."

HSBC hasn't responded to my provisional decision. Mr B has rejected my decision but hasn't provided any new evidence or information.

As I haven't been provided with any new detail to consider, I've seen nothing which leads me to change my decision. I'm not persuaded to depart from what I said in my provisional decision.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 21 April 2025.

Richard Hale
Ombudsman