

The complaint

Mr D complains that HSBC UK Bank Plc, trading as first direct, got the interest rate wrong when they calculated a settlement figure for him.

What happened

Mr D took a loan out with first direct in July 2024. The interest rate was set at 6.4% per year. When Mr D asked for a settlement quotation, he was upset to discover first direct calculated the settlement incorrectly.

Mr D complained to first direct and they initially insisted the calculation was correct, but they didn't provide Mr D with the calculation they had used to arrive at the settlement amount.

Mr D referred his complaint to this service and while our investigator was considering it first direct realised they had made a mistake. They explained that when Mr D had applied for the loan it was advertised at an indicative rate of 6.4% APR but after they had completed credit checks Mr D was only approved for the loan at 13.9% APR. A system error had led to the loan being issued on the basis of 6.4% APR. First direct said they'd, therefore, agreed to allow the loan to run at that rate but when they'd calculated the settlement it had been calculated at 13.9% APR, hence the confusion. To put things right first direct suggested three alternatives all of which were aimed at putting Mr D back in the position he would have been in had the mistake not happened. They also agreed to pay Mr D £200 in recognition of the inconvenience he'd experienced.

Our investigator thought first direct's offers were reasonable in the circumstances but Mr D didn't. He explained he'd paid more in interest since he'd asked for the settlement quotation than the £200 first direct were offering. He, therefore, asked for a final decision by an ombudsman.

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 D, but while I'm upholding this complaint I don't think first direct need to do any more than they have offered to do since the complaint was referred to this service. I'll explain why.

Where the information I've got is incomplete, unclear, or contradictory, as some of it is here, I have to base my decision on the balance of probabilities.

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, it's 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.

The Consumer Credit Act covers several areas of consumer credit including the content and

form of credit agreements and the procedures relating to default, termination, and early settlement. In relation to early settlement the Consumer Credit Act says that settlement figures should be calculated using the rules set out in the Consumer Credit (Early Settlement) Regulations 2004. The formula for the calculation of the rebate of future interest charges is set out in section 4 of that Act. It's a complicated formula and it's usual for the calculation to be automated and audited. Businesses don't need to set out the whole calculation when they provide a settlement quotation, but they should explain how the figures are derived and here I don't think first direct have done that. They've also accepted that they didn't calculate the settlement correctly as they were using the wrong APR.

I can, therefore, understand Mr D's frustration as he had been querying the settlement for some time and was merely told it was correct. Mr D suggests he would have settled the loan earlier had he been provided with the correct figures and that he's had to pay interest in the meantime. I can't be certain that Mr D would have settled the loan earlier had he been provided with the correct information, but I have considered the claim as a whole when thinking about whether first direct's offers to resolve matters for Mr D are fair ones.

First direct have suggested three options to resolve the interest rate issue. All of them appear to put Mr D back in the position he would have been in had the settlement quotation error not have been made and they allow Mr D the opportunity to settle the loan, if he wishes, at the correct rate. I don't think first direct need to do anything further in that respect.

First direct have also offered to pay Mr D £200 in compensation. I understand Mr D's concerns that he would have paid more in interest while he was waiting for the correct settlement figure, but I can't be sure he would have settled had he had the correct figure and I've not been provided with evidence to suggest he has since the figure was revised. I've also borne in mind that first direct have been prepared to allow the loan to run at 6.4% APR despite Mr D not having qualified for that rate. That action will have saved Mr D quite a bit of money, much more than he is likely to have lost out on in interest charges since he asked for a settlement quote. All told, I think £200 compensation is fair and I'm not, therefore, asking first direct to take any further action.

My final decision

For the reasons I've given above I uphold this complaint and HSBC UK Bank Plc trading as first direct, to:

- Pay Mr D £200 to compensate him for the distress and inconvenience caused.
- Allow Mr D to choose, if he wishes, one of the three options they set out in their *"Assessment – Complaint Summary"* letter, the details of which our investigator confirmed to Mr D on 24 March 2025.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 9 May 2025.

Phillip McMahon
Ombudsman