

## The complaint

Mrs T has complained that HSBC Bank UK plc (“HSBC”) gave her loans that she couldn’t afford to repay.

## What happened

A summary of Mrs T’s lending history can be found below.

loan number	loan amount	total to repay	APR	agreement date	repaid date	number of monthly instalments	highest repayment per loan
1	£7,000	£7,852.38	11.9%	16/01/2019	07/02/2020	24	£327.18
2	£7,090	£8,307.11	16.9%	07/02/2020	29/09/2020	24	£346.13
3	£19,200	£26,348.66	9.9%	06/06/2022	outstanding	84	£314.05

Mrs T has had some problems repaying her final loan and she entered into a repayment plan in September 2024 for six months. It’s possible this has since been extended.

HSBC considered Mrs T’s complaint about the lending, and it didn’t uphold the complaint. Unhappy with this response, Mrs T referred the complaint to the Financial Ombudsman.

The complaint was considered by an investigator who partly upheld it. For loans one and two, the investigator concluded HSBC had carried out proportionate checks which showed the loans to be affordable – these loans weren’t upheld.

However, for loan three, the investigator said further checks were needed before HSBC lent. Had further checks been carried out such as reviewing bank statements, HSBC would’ve likely concluded the loan wasn’t affordable once her living costs were accounted for.

Mrs T accepted the outcome but HSBC didn’t agree saying;

- There were no indicators in the results of its checks that would’ve led HSBC to carry out a more detailed affordability assessment for loan three.
- Mrs T’s existing debt to income ratio was in line with credit risk set by HSBC. This wouldn’t increase with this loan as Mrs T was using it for debt consolidation.
- Mrs T’s circumstances have changed, and so it’s only now the finance was unaffordable and HSBC has assisted Mrs T when she reached out for help.
- It provided a copy of another final response letter issued in December 2024, which dealt with a complaint Mrs T had raised about the interest rate charged on her third loan while she was in a repayment plan. HSBC paid £400 to Mrs T and it rebated the interest she was charged while subject to the payment plan.
- HSBC has also rejected other loan applications Mrs T had made in 2023.

These comments didn’t change the investigator’s mind, as no agreement could be reached the complaint has been passed to me to decide.

## **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.

We've set out our general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website. And I've used this approach to help me decide Mrs T's complaint. Having carefully considered everything I've decided to partly uphold Mrs T's complaint. I'll explain why in a little more detail.

HSBC needed to make sure it didn't lend irresponsibly. In practice, this meant it needed to carry out proportionate checks to be able to understand whether Mrs T could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for checks to be less thorough – in terms of how much information is gathered and what is done to verify it – in the early stages of a lending relationship.

But we might think more needed to be done if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So, we'd expect a firm to be able to show that it didn't continue to facilitate a customer's loans irresponsibly.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mrs T's complaint. Having looked at everything I have decided to partly uphold Mrs T's complaint and I've explained why below.

I'm sorry to hear that repaying this loan has been difficult for Mrs T and that she's had a significant change to her living arrangements, and she's explained how this impacted her mental health. I do hope she's receiving the help and support that she needs.

Firstly, as part of Mrs T's original letter of complaint, in addition to her complaint about her loans, she also raised a complaint about an overdraft and a credit card. Those complaints are being or have been dealt with separately. I want to be clear that this decision solely concerns HSBC's decision to provide loans to Mrs T.

Secondly, Mrs T accepted the findings reached by the investigator – including not upholding her complaint about loans one and two. HSBC also didn't disagree with the investigator's findings about the first two loans. Therefore, in my view, these loans are no longer in dispute and so I have only considered loan 3.

### **Loan 3**

Mrs T, as part of application declared she received £38,625 – gross. HSBC worked this out to be a net salary of around £2,303 which was checked against the credit turnover of Mrs T's HSBC bank account. So, I think it's fair to say, HSBC had a fairly good idea of Mrs T's monthly income.

HSBC then went on about carrying out an affordability assessment. To do so, it used a combination of modelling for essential monthly payments such as council tax, food and utilities. Mrs T declared at the time she was a tenant and so it used a "*rental model*" to work

out the likely monthly cost. HSBC says that there was an expectation that some of the living costs were split as Mrs T was married. Including Mrs T's existing monthly credit commitments as well as the cost of the loan, HSBC worked out Mrs T had around £563 per month in disposable income.

HSBC conducted a credit search. It's worth saying here that HSBC hasn't been able to provide a copy of the raw data that it received, instead it has provided a summary of the results that it said it received. The results it provided showed Mrs T's existing debts totalled £18,400 across nine active accounts. Mrs T didn't have any bankruptcies, CCJs, defaults or payment arrangements.

Overall, HSBC said that after carrying out the creditworthiness assessment there were no indicators or concerns that suggested Mrs T wouldn't be able to repay this loan.

The investigator said that Mrs T's debt to income ratio (DTI) was close to 50% - which ought to have prompted further checks. Whereas, HSBC says the DTI included vehicle finance which perhaps had a balloon payment – as a result the DTI would reduce to 39%.

I've thought about these points, because this is the crux of the issue, but bearing in mind that HSBC had a fairly good idea of Mrs T's income. And it was aware of some of Mrs T's outgoings – but HSBC couldn't know for sure bills would be split without taking a closer look at her finances. Given the loan term, amount and monthly payment I do think further checks were warranted.

Beyond carrying out further checks, I know from another complaint that within the year before this loan payment Mrs T had increased her overdraft limit from £1,500 to £2,500 and the bank statements HSBC would've had access to, would've shown it that Mrs T was at times making full use of her available limit.

While I make no finding on whether the overdraft limit was appropriate (or not) I do think, given everything else that HSBC knew about Mrs T that further checks were warranted – considering the amount Mrs T had borrowed and the term that Mrs T was agreeing to be indebted for.

I've therefore considered what further checks are likely to have shown. I have copies of Mrs T's HSBC bank statements – which HSBC would've had access to at the time, as she was a customer of theirs and is evidence of her financial circumstances at the time.

Of course, I accept different checks might show different things. And just because something shows up in the information Mrs T has provided, it doesn't mean it would've shown up in any checks HSBC might've carried out. And in the absence of anything else from HSBC relating to what its checks indicated, I think it's perfectly fair, reasonable and proportionate to place considerable weight on what other information it clearly had access to as an indication of what Mrs T's financial circumstances were more likely than not to have been at the time.

I also think it's important for me to set out that HSBC was required to establish whether Mrs T could sustainably make her loan repayments – not just whether the loan payments was technically affordable on a strict pounds and pence calculation.

I'd also point out the income figure used by HSBC looks broadly accurate as well once the child benefit payments are factored in Miss T's income looks to be around £2,300 per month. In March 2022, Mrs T did receive a larger salary, but this seems to have been a one off – so I've not considered that as her regular income.

The information provided in the bank statements show that Mrs T's current account, by the time of the loan being approved was consistently overdrawn – even after she received her monthly salary. Indeed, in the months leading up to the loan being approved, Mrs T isn't out of her overdraft. While this on its own isn't a reason, to uphold the complaint it does show that each month Mrs T needed to in effect make use of a borrowing facility to meet her regular monthly commitments.

The investigator worked out that Mrs T already had credit commitments of just under £600 per month – and that looks about right. She had a personal loan costing nearly £360 per month and what could've been car finance at nearly £160 per month.

On top of this I can see rent payment of £950, council tax of £173, mobile phone of £73 and then there are other costs such as subscription services, insurances and utilities. Petrol is around £40- £50 per week. Food is again variable but works out just under £150 per week.

There are also other payments that I've seen, but not included such as childcare – as this is variable, and other living costs such as clothes and other travel that I can see beyond petrol.

I can also see a regularly payment each month into her account for around £1,000 – this is likely a contribution towards the bills and I'm persuaded by this given it was received each and every month. However, even taking that contribution into account, HSBC ought to have still concluded the loan was unaffordable, given the costs that I've seen above, the other monthly costs Mrs T would likely continue to pay which I've not factored in, and how Mrs T was using her overdraft.

HSBC has suggested it knew Mrs T had car finance, which may have included a balloon payment – but given the account balance at the time, it's not clear whether or not there would be a balloon payment and it doesn't seem to have investigated that further as part of its assessment. So, I'm not persuaded that Mrs T possibly having a balloon payment (or not) would lead me to conclude a different outcome needs to be reached.

As this is the case, I think that proportionate checks were likely to have shown HSBC that Mrs T was unlikely to be able to afford the payments to this loan, without undue difficulty or borrowing further. So, I'm satisfied that reasonable and proportionate checks would more likely than not have shown HSBC that it shouldn't have given the loan to Mrs T.

It therefore follows that Mrs T is currently expected to pay interest, fees and charges on a loan she shouldn't have had. So, I'm satisfied that Mrs T has lost out and HSBC should put things right for her as set out below.

HSBC has already accepted, under another complaint that Mrs T raised that it would pay some compensation and rebate her the interest that was charged during the payment plan on this loan that started in September 2024. I say no more about this, but given I've upheld the complaint, Mrs T is now limited to repaying the capital amount that she borrowed. And HSBC should continue to work with her – treating her fairly and with forbearance when discussing a way to repay what is owed.

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mrs T in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

### **Putting things right**

Having thought about everything, HSBC should put things right for Mrs T by:

- removing all interest, fees and charges applied to Mrs T's loan from the outset. The payments Mrs T made, should be deducted from the new starting balance – the £19,200 originally lent. If Mrs T has already paid HSBC more than £19,200 then it should treat any extra as overpayments. And any overpayments should be refunded to Mrs T;
- If applicable, HSBC should add interest at 8% per year simple on any overpayments, from the date they were made by Mrs T to the date of settlement†
- If an outstanding balance remains due, then Mrs T and HSBC should try and agree a mutually acceptable repayment plan and I remind HSBC to treat Mrs T fairly and with forbearance.
- if no outstanding balance remains after all adjustments have been made, all adverse information HSBC recorded about this loan should be removed from Mrs T's credit file.

† HM Revenue & Customs requires HSBC to take off tax from this interest. HSBC must give Mrs T a certificate showing how much tax it has taken off if she asks for one.

### **My final decision**

For the reasons given above, I uphold Mrs T's complaint.

HSBC Bank UK Plc should put things right for Mrs T as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs T to accept or reject my decision before 9 May 2025.

Robert Walker  
**Ombudsman**