

The complaint

Miss A complains that HSBC UK Bank Plc failed to explain what a default notice or final demand meant and proceeded to default and close her credit card account.

What happened

Miss A had a credit card with HSBC. On 28 December 2023 Miss A spoke with HSBC as she was experiencing some financial difficulty. After going through an income and expenditure exercise the advisor set up a Long Term No Affordability plan for a period of six months. In February 2024 HSBC issued a Default Notice letter followed by a Final Demand a month later. The account proceeded to closure.

Miss A complained to HSBC. She said it hadn't been explained to her that her account could be closed and a default registered. She wanted it removed. In its final response HSBC said the correct Collections process had been followed and no errors had been made. Miss A brought her complaint to this service.

Our investigator concluded that HSBC had explained the situation to Miss A on the call including the possibility of a default. Miss A didn't agree and asked for a decision from an ombudsman. I issued a provisional decision on 10 April 2025. I said:

The call at the heart of this complaint was between Miss A and HSBC on 28 December. It lasted about 48 minutes. I've listened to the call twice and have summarised part of it below.

The result of the income and expenditure exercise resulted in a negative disposable income. The advisor said she couldn't ask Miss A to make payments but there could still be an arrangement. She put Miss A on hold to check the options and then returned and said:

"I'll be providing this arrangement towards your account, we're going to apply this not just with your credit card but also with your bank account....if you're able to maintain the bank account in credit this is still good. In the meantime, we just need to add that as part of the arrangement in place, okay? So, this arrangement that I'll be providing towards your account will run through the next six months, Okay?. I'll be reading the terms and conditions. Let me know if you have any questions or concerns....the arrangement we can offer is a long term no affordability solution this can be applied for a maximum of six months."

She then explained this will appear on Miss A's credit file and arrears will still accrue, charges and interest would be suspended but she wouldn't be required to make payments. She asked if Miss A wanted to proceed and then said:

"Letters will still be sent e.g. Notice of Sums in Arrears...you don't need to respond to these notices...keep it for your reference instead."

The advisor went on to explain the Default Notice/Pre-Demand Notice and Final Demand process, including account closure if the full balance isn't paid and what the impact would be on Miss A's credit file.

To me, Miss A didn't sound like she understood. But the advisor continued explaining about the closing statement and that Miss A wasn't required to contact HSBC until 28 June.

Miss A then asked: "Did you say the credit card is going to be closed?"

The advisor responded:

"The credit card will be suspended so you won't be able to use it until such time as you will be able to make normal payments okay? The reason for this is the outcome of I&E is showing a negative income. Of course, as your bank we don't want to put pressure on your payments..."

Miss A then asked: "At the end of this period the amount that I'm supposed to pay back will it remain the same, they'll be no extras?" The advisor said "Arrears will accrue but no additional charges."

I'm satisfied the Default process itself was explained clearly towards the end of the call. But there were two elements which confused me. After listening to the call I wasn't clear as to what a Long Term No Affordability (LTNA) arrangement meant for Miss A. I asked HSBC to explain this to me. It said the LTNA is when the customer is classified as not being able to pay anything now or in the foreseeable future (next six months) following an affordability assessment. It holds the account while it progresses through the default process.

The second thing that wasn't clear is whether Miss A understood her account was likely to close. She asked if her credit card was going to be closed at the end and was told it would be suspended even though the advisor had explained the account closure earlier in the call. So at the end of the call I'm not persuaded the link was clear that the LTNA arrangement was the default process and that the Default Notice letter would be sent out as soon as 8 February.

HSBC has a duty to ensure it presents customers with the information they need to make decisions in a way they can understand. I'm not persuaded this call was clear enough in its explanation of what the LTNA arrangement was, and that the customer understood what she was being told about the account closure. Subject to any further information I might receive I'm minded to instruct HSBC to pay Miss A £75 for the distress and confusion this call has caused Miss A.

Would it have made a difference if the plan was explained more clearly?

I've looked at Miss A's previous account management. I note that she has previously had a payment break between December 2022 and March 2023. I've seen a copy of the letters sent to Miss A at the start and end of the break. The end letter dated 7 March explained what would happen if Miss A did not contact HSBC to discuss the outstanding balance. This included that a Default Notice and Final Demand may be sent. It also said information about the default would be reported to Credit Reference Agencies (CRA).

So while Miss A has said the Default Notice and Final Demand weren't explained to her in the call she had received letters some months previously with the terminology

and hadn't queried it then.

HSBC told this service that the account was defaulted/closed and passed to HRS (HSBC Repayment Services) for collection of outstanding debt. It said as Miss A was in a LTNA with no prospect of resuming payments or bringing the account up to date in the following six months from when this was agreed, its collections process continued, in line with the expectation/guidance from Financial Conduct Authority (FCA). As the LTNA was agreed for six months, HSBC said HRS has honoured this and hasn't pursued Miss A for repayment during the remaining period of this plan.

HSBC went on to say it did not feel the Default/closure is a bank error as had it not done so, it would have placed the customer in a worse position by prolonging the negative impact this would have on her CRA file. The balance in January 2025 was £1,917.59. HSBC said this shows that Miss A had not been in a position to clear the balance since the LTNA was agreed and up to date nor has she made any of the required minimum payments as per the contract.

Given that Miss A hasn't been able to make the minimum payments I'm not persuaded a clearer explanation of the arrangement would have materially changed Miss A's situation. The letters in January, February and March 2024 explained clearly what Miss A needed to do to avoid the Default being recorded. I understand that Miss A would like me to instruct HSBC to remove the Default. But although I believe HSBC could have explained the LTNA better in the telephone call I'm satisfied it has otherwise acted fairly and in line with its obligations as a responsible lender when it applied its Default process to Miss A's account.

HSBC did not agree with my conclusions. Miss A didn't believe my recommended remedy went far enough. Both have provided additional comments to which I have responded below where appropriate.

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 believe my conclusions above still stand.

HSBC didn't believe that compensation was warranted. It said its apology for distress and inconvenience caused by any confusion would be more appropriate in this instance. It said this situation hasn't had any material impact on Miss A or her decision given the account conduct and financial position. It said irrespective of the information provided potentially not being clear to Miss A, no alternative options were available and it advised of its default and final demand process.

I'm not disputing that HSBC's written communication advised Miss A of the default and final demand process and was clear. But the call itself was not clear about the LTNA. I say this because after reading HSBC's responses to my enquiries it seems to me the LTNA process is the default and final demand process with the account likely leading to closure. This wasn't clear during the call to the extent that Miss A asked right at the end of the 48 minute call -

"Did you say the credit card is going to be closed?"

At this point the advisor did not clarify the situation but merely said the account would be suspended. And Miss A then went on to ask about the arrears at the end of the six-month

period. So I'm not persuaded Miss A understood on the call what the "arrangement" part of the LTNA was and that closure of the account was a likely outcome given her negative income.

I'm pleased to see that HSBC recognises an apology is owed to Miss A. While I don't think better clarity would ultimately have changed the longer-term outcome – the default – given Miss A's broad financial situation and account conduct, it would've alerted her on the call to the gravity of the situation and a better understanding of the implications. So I'm persuaded £75 compensation is fair and reasonable.

Miss A has asked me to take into consideration her personal situation at the time. She said she was out of the country taking care of her mother who was ill. She said her mistake was failure to reach out while she was away because she was emotionally distressed and confused. She said the negative affect on her credit standing because of these unforeseeable circumstances is unfair. Miss A went on to say that she is still struggling financially but is doing all in her power to get back on her feet and that she's the family breadwinner.

I'm very sorry to hear about Miss A's mother and the fact she had to look after her abroad. I can see how this would have been a challenging time. And I do understand why she would like me to remove the default and increase the settlement. Even if I thought the default was applied unfairly at the time (and I don't) I need to consider the financial impact of removing it. HSBC has an obligation to not make Miss A's financial situation worse if it can help it. If I instruct HSBC to remove the default then all fees and charges recommence, and the arrears would become due. Miss A has said herself she's still struggling financially so there is a very real possibility the account would default again, and the default 'clock' of six years would restart. The effect would be the default appearing on Miss A's credit file for more than six years.

I'm sympathetic to the fact this is not the news Miss A would like but I'm satisfied £75 is fair and reasonable in the circumstances.

Putting things right

To put things right HSBC UK Bank Plc must pay Miss A £75 in compensation.

My final decision

My final decision is I uphold this complaint and HSBC UK Bank Plc must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 15 May 2025.

Maxine Sutton
Ombudsman