

## **The complaint**

Mr M complains about the way in which HSBC UK Bank Plc trading as First Direct has recorded a default on his credit file.

## **What happened**

Mr M holds a credit card account with HSBC. He experienced a change in his circumstances which impacted on his finances and in 2024 he defaulted on the card.

Mr M recently applied for a mortgage but was rejected. He was advised that this was because of how HSBC had recorded the default on his credit file. Mr M complained to HSBC.

In its final response, HSBC said that when a credit card defaulted and was passed to HSBS Repayment Services, they required a sort code and account number. HSBC said that because a credit card doesn't have a sort code or account number, it transfers the balance to a savings account and then marks the credit card as settled or closed, and the default is then registered under the savings account. HSBC apologised for any frustration caused to Mr M but said it had acted in line with its policies and procedures and wouldn't be amending Mr M's credit file.

Mr M remained unhappy and brought his complaint to this service.

Following the referral of the complaint to this service, HSBC said that although it hadn't made an error, it recognised the inconvenience that applying for a Notice of Correction might cause Mr M and offered compensation of £100 by way of apology.

Mr M declined the offer. He said it wasn't his fault that HSBC's system anomaly was causing two reports on his credit file.

Our investigator upheld the complaint. He said the way in which HSBC has reported the credit card made it appear to potential lenders that Mr M was six months in arrears with the card before setting it, then defaulted on a savings account. The investigator said that this wasn't accurate or factual and recommended that HSBC amended Mr M's credit file and removed the savings account entry so that it only showed the arrears and default on the credit card. The investigator said that HSBC should pay £100 compensation for the distress and inconvenience caused to Mr M by reporting the default in this way.

HSBC said it was happy to pay £100 compensation. It said the issue regarding how it reported a default for a credit card was due to a systems constraint which meant it couldn't amend the way it reported credit card defaults to the credit reference agencies. HSBC said it was working on building a new collections and recoveries system that would remedy the issue in the future.

Because HSBC didn't agree I've been asked to review the complaint.

## **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 agree with the investigator's opinion. I'll explain why.

HSBC – like all lenders – is obliged to report accurate information to the credit reference agencies.

In this case, HSBC has reported the credit card account as being six months in arrears before being marked as settled. It has also reported a defaulted bank account. This has resulted in Mr M having two accounts reporting negatively on his credit file in relation to the credit card account.

Based on what I've seen, I don't think HSBC has treated Mr M fairly. The information it is reporting on his credit file isn't accurate.

HSBC has explained to this service that a systems anomaly means that it has to open a savings account in order to write off a credit card account, as its systems require a 6-digit sort code and an 8-digit account number to transfer a debt to HSBC Repayment Services. The default is registered against the savings account and the credit card account is marked as settled.

HSBC has suggested that Mr M applies for a Notice of Correction to explain the information it is reporting.

I've taken account of what HSBC has said by way of explanation for how the information is being reported on Mr M's credit file. However, I remain of the view that HSBC hasn't treated Mr M fairly, because the way the information is reporting makes it look as if Mr M defaulted on a bank account as well as being in arrears on his credit card. This isn't an accurate reflection of what happened.

I appreciate that there is an anomaly with HSBC's systems which they are working on fixing for future credit card default reporting. But I don't see why Mr M should be negatively impacted by something which HSBC need to resolve. And I don't think it's fair or reasonable to expect Mr M to apply for a Notice of Correction and contact each lender individually each time he applies for credit.

For the reasons I've explained above I think it's fair to ask HSBC to amend Mr M's credit file. HSBC has said that if it removes the default from the savings account, this will mean that there wouldn't be a default registered anywhere on Mr M's credit file, because it can't replace "settled" with "default" on the credit card.

I acknowledge that it's important for a default to be visible to other lenders, but I don't agree that the way in which the information is being reported in this case makes lenders aware of what actually happened with Mr M's account. The current reporting makes it look as if Mr M has fallen behind on his credit card and defaulted on a bank account. This should be amended so that Mr M isn't negatively impacted beyond that which he would normally be in circumstances where he had defaulted on a credit card.

## **Putting things right**

To put things right, HSBC UK Bank Plc trading as First Direct must:

1. Amend Mr M's credit file so that it only shows the arrears and default on the credit card. The bank account should be removed.

2. Pay compensation of £100 for the distress and inconvenience caused to Mr M.

**My final decision**

My final decision is that I uphold the complaint. HSBC UK Bank Plc trading as First Direct must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 29 September 2025.

Emma Davy  
**Ombudsman**