

## **The complaint**

Mrs S complains HSBC UK Bank Plc trading as First Direct irresponsibly lent to her.

## **What happened**

Mrs S took out two unsecured loans from First Direct. The first, in May 2019, was for £21,500; the monthly repayments were £329.47 and the total repayable was £23,720.09. This had a 72-month term. The second, in November 2019, was for £5,000; the monthly repayments were £86.43 and the total repayable was £5,703.45. This loan had a 66-month term. Both loans were taken out for debt consolidation.

Mrs S says she thinks the loans should have been declined after they looked at her credit report. She asks that First Direct refund all interest and charges, include statutory interest and remove any negative information from her credit file.

First Direct issued a final response letter dated 16 May 2025. They say they carried out adequate checks which showed the loans were affordable based on the information they had used to consider the loan applications. They do not agree that either loan was offered irresponsibly. They sympathise with Mrs S' frustration with her credit file being impacted, but they are not able to change this, as there are no errors in the information they supplied.

Mrs S wasn't satisfied with First Direct's response and referred her complaint to this Service.

Our Investigator did not uphold Mrs S' complaint. She said First Direct were unable to provide evidence of a credit search check, verified income or any type of expenditure assessment. She could not conclude that First Direct had carried out reasonable and proportionate checks prior to approving the lending. She therefore considered what proportionate checks would likely have shown. She reviewed bank statements for the period leading up to both applications. From the available evidence she did not conclude that proportionate checks would have led to a different lending decision.

Unhappy with this assessment, Mrs S asked for an ombudsman's review. She says that the salary used to consider the first application was more than usual, as a bonus payment was included. She says that she then also took out a mortgage, which further increased her outgoings. She is also unhappy that B provided no proof that checks were completed and thinks that the basis for the findings could be incorrect.

Because an agreement couldn't 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.

I've kept in mind the regulator's rules and guidance on responsible lending (set out in its Consumer Credit Sourcebook – CONC) which lenders, such as First Direct, need to abide by. First Direct will be aware of these, and our approach to unaffordable/irresponsible

lending complaints is set out on our website. I've used this approach to help me to decide Mrs S' complaint. I won't refer to the regulations in detail here, but will summarise them.

The rules and regulations mean that First Direct needed to carry out reasonable and proportionate assessments of whether Mrs S could afford to repay what she owed them in a sustainable manner. Being able to sustainably repay credit means that they needed to consider whether she could repay the loans without undue difficulty, while being able to meet her other commitments and without having to borrow further.

There isn't a 'set list' of checks that lenders need to carry out. The checks First Direct carried out did however need to be proportionate to the nature of the credit (the amount borrowed or the term, for example) and suited to Mrs S' particular circumstances in order to treat her fairly.

In general, our view is that we think it's reasonable for a lender's checks to be less thorough, in terms of how much information it gathers and what it does to verify it, in the early stages of a lending relationship. 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 lender to be able to show that it didn't continue to lend to a customer irresponsibly.

To reach a decision I've considered whether First Direct completed reasonable and proportionate checks when assessing Mrs S' loan applications, to satisfy them that she would be able to make her repayments without experiencing adverse consequences. I've also considered, if this was not the case, what would reasonable and proportionate checks have shown and, ultimately, whether First Direct made fair lending decisions.

#### Loan one

First Direct say they conducted a detailed creditworthiness and affordability assessment, using information from Mrs S' application, evidence from her accounts with them and external data from credit reference agencies. They say their lending process looked at the following:-

- Income
- Living costs and monthly spending on utility bills, council tax, grocery shopping etc
- Rent or mortgage payments
- Credit scores and credit commitment data from credit reference agencies
- Level of debt
- Payment history and any adverse information such as arrears, defaults, Bankruptcy or County Court Judgements etc
- Affordability assessment
- The level of remaining disposable income, taking into account how much income was being used to pay off existing debts.

From these combined checks, First Direct concluded Mrs S could afford to make the repayments she was committing to.

First Direct haven't been able to provide evidence of these checks, because the loan was made online and processed using an automated application. They say that this tool considered all of the information mentioned above to make the decision. They also say that if the application had been made in person, they would have been able to provide the evidence for review. As a result of this, as I cannot see the information that the decision was based on, I'm unable to conclude that First Direct carried out reasonable and proportionate checks prior to approving loan one.

In situations like this, where I cannot see that reasonable and proportionate checks were completed, I need to consider what they would have shown. To do so, I've looked at bank statements for the three months prior to the loan application. I'm not saying First Direct had to do this, but it is a way for me to understand Mrs S' actual financial position at the time and consider what checks would most likely have shown the lender.

This review has enabled me to independently verify details of Mrs S' income and expenditure. I can see from these statements that Mrs S' financial circumstances were consistent with the information that our Investigator gave in her view. I can see there was a bonus payment of £1140 included in the income calculation. I have therefore put this aside and used the income figure of £1666 that Mrs S stated was correct at the time of her loan application. I can see that there was approximately £510 disposable income remaining after Mrs S' monthly payments. This means that the repayment amount of £329.47 was affordable for her. I've also considered here that the purpose of loan one was to consolidate Mrs S' debts. I can see that she did use this to pay off another loan and credit card debt in the way she intended to.

I've also reviewed a retrospective report from the credit reference agencies for this period. There was no adverse information recorded against Mrs S' accounts such as defaults, County Court Judgements or bankruptcy. It is unlikely that anything of this nature would have negatively impacted any checks conducted by the lender or caused the loan application to have been declined.

Overall, my assessment of Mrs S' financial situation indicates that the loan was affordable. She had sufficient income to cover her financial commitments and living costs, taking into account the loan repayments. I can't find anything in the evidence that I have reviewed that ought to have concerned First Direct at the time of this loan application or which would have likely resulted in their automated system declining the application.

#### Loan two

First Direct say they conducted the same assessment of affordability for loan two. This second loan application was also made online by Mrs S and the lending decision was again automated. This application considered the same things as I've described above for loan one.

As this application was processed in the same way as loan one, First Direct are also unable to provide evidence of these checks. For the same reason as previously, I'm unable to conclude that First Direct carried out reasonable and proportionate checks in relation to loan two.

I need to consider what such checks would have shown in relation to loan two, so I've carefully reviewed the bank statements for the three months prior to this application too. I have noted Mrs S' comments that she had taken out a mortgage. I can see this was the case from the evidence that I have seen, and this has been taken into careful consideration.

I can see from the statements, that the account Mrs S had with First Direct was always in credit and there was a relatively high level of discretionary spend, some of this was associated with the house purchase that she refers to. There were however no obvious signs of financial difficulty at this time. The repayment of £86.43 for loan two seems affordable relative to Mrs S' outgoings, given an average disposable income during this period of approximately £160. As Mrs S had given the reason for loan two as additional debt consolidation, it is reasonable for First Direct to have considered that this would further decrease her outgoings and improve her financial position.

Overall, for Loan two, I can't say that there was anything in the information I've seen that should have made First Direct's automated process decline this loan application or indicate to them that the repayments for the second loan would be unaffordable for Mrs S.

Mrs S argues that her credit file should have showed how much she was struggling with credit. And she feels the loans should not have been approved. She doesn't think that First Direct made fair lending decisions.

I've carefully thought about what Mrs S has said, but I have had to rely on the data available to make my calculations and help me to decide whether or not First Direct had a valid basis on which they based their decision. I'm satisfied, having completed a detailed review of her financial circumstances on each occasion, that both loan repayments were affordable for Mrs S. Whilst they have been unable to provide proof of the checks they say they made, based on the evidence I have seen, I'm satisfied that First Direct would have been reasonably entitled to think that they wouldn't be increasing Mrs S' existing indebtedness in a way that was unsustainable or otherwise harmful. In summary, the information I've seen shows the decision to approve both loan one and loan two to have been reasonable, based on Mrs S' income and fixed costs at the time of each loan application.

In reaching my conclusions, I've also considered whether the lending relationship between First Direct and Mrs S might have been unfair to Mrs S under s140A of the Consumer Credit Act 1974 ("CCA"). However, for the reasons I've already explained, I'm satisfied that First Direct did not lend irresponsibly when providing Mrs S with the loan. And I haven't seen anything to suggest that s140A CCA would, given the facts of this complaint, lead to a different outcome here.

So, while it'll likely come as a disappointment to Mrs S, I won't be upholding her complaint against First Direct for the reasons explained above.

Mrs S has entered into a debt arrangement scheme and says that she's paying these off at a more affordable cost. First Direct have fully cooperated with this and I would remind them of their ongoing obligation to treat her fairly, and with forbearance.

### **My final decision**

I am not upholding Mrs S' complaint against HSBC UK Bank Plc trading as First Direct .

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 16 February 2026.

Alison Wharton  
**Ombudsman**