

The complaint

Mr S complains that HSBC UK Bank Plc (trading as "First Direct") irresponsibly provided him with a personal loan.

What happened

First Direct provided Mr S with a personal loan in July 2024. The loan was for £8,000 with a total amount repayable of £9,718.27, over a term of 36 months. The first monthly repayment was £270.02 with a further 35 monthly repayments of £269.95. I understand the account is currently in arrears.

Mr S complained to First Direct in October 2024. In summary, he said First Direct didn't carry out sufficient checks before providing him with a loan of significant value. Mr S said the loan was unaffordable because the loan repayments would take up a large proportion of his remaining income which was set aside for costs such as food and travel. Mr S also said he'd been made redundant the week prior to obtaining the loan, meaning his ability to repay the loan was in fact close to zero.

Mr S said that making the loan repayments meant he was unable to meet his usual commitments such as rent, phone bills and vehicle finance – and it limited his ability to pay for things like food and fuel. He said it's also impacted his credit score and his ability to refinance current debts. He said the situation has taken its toll on his mental state and affected his family, leaving him stressed and worried about how to make ends meet.

In its final response letter, First Direct didn't uphold Mr S's complaint because it didn't agree the lending was irresponsible. In summary, it said its checks showed Mr S had enough disposable income to make the payments towards this loan. First Direct also said Mr S said 'no' to a question about whether he was aware of any changes to his circumstances which would affect his ability to repay the loan, despite being aware he'd been made redundant.

Mr S remained unhappy and asked our service to investigate the complaint. In addition to the points he'd raised with First Direct previously and in summary, he said:

- First Direct's position is contradictory as it relies on stating it carried out an extensive creditworthiness check but also trust in the application. First Direct was passing the blame onto Mr S. Mr S says his application forms may have had errors or been incorrect as he was under a large amount of stress at the time. Mr S says First Direct ought to have communicated with his employer.
- First Direct didn't seek proof of income and the only income that had been paid into his First Direct account was inflated as it included backpay. His correct basic salary was £68,503.
- The disposable income figure First Direct calculated was incorrect as First Direct had only accounted for outgoings for rent and car finance – in reality, he had less money available each month. First Direct should have requested proof of outgoings.
- At the time of application, he had multiple buy-now-pay-later (BNPL) loans and short-term credit loans, which he doesn't think First Direct picked up on. He's also provided

evidence he was in a Debt Management Plan (DMP) and says this was linked to multiple defaults on his account.

- First Direct had a lack of current data to make its decision on, as Mr S had only banked with First Direct for one month before applying for the loan.
- In terms of impact, he's had to borrow more from existing credit facilities and has spent every day worried and scared about his ability to keep a roof over his family. First Direct has also made Mr S feel ashamed in its final response letter as it has implied it's Mr S's fault for applying and being unable to manage his finances.

Our Investigator reviewed matters but didn't recommend the complaint be upheld. In summary, they thought First Direct carried out proportionate checks which showed that the lending was likely to be affordable for Mr S.

First Direct has accepted our Investigator's findings but Mr S didn't agree.

In response to the Investigator's view and in summary, Mr S said First Direct shouldn't have used modelled outgoings or assume that costs would be split 50/50. Mr S said First Direct shouldn't have relied on one paycheck to determine his current account turnover and that his income was more realistically around £3,700 to £3,800 per month and his expenditure around £3,714 each month.

After reviewing the further information, the Investigator said the outcome they'd reached hadn't changed. They said First Direct had verified the income Mr S declared using reasonable sources and the monthly amount it had relied on roughly matched Mr S's calculation of his net monthly income. Although First Direct didn't evidence it had asked Mr S about his outgoings on the application form, the Investigator said it was reasonable for it to assume some household expenses would be shared. And that First Direct only need to do more checks where, for example, the applicant had a low disposable income or there were significant signs of financial difficulties. Ultimately, the Investigator said they didn't think it would have been proportionate for First Direct to have verified Mr S's outgoings, for example by checking bank statements.

Whilst First Direct agreed with the Investigator's findings, Mr S didn't agree and reiterated his earlier points.

Because an agreement couldn't be reached, the complaint was passed to me to decide on the matter.

I issued a provisional decision where I said:

"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having carefully considered everything provided, I don't intend to uphold Mr S's complaint – and I'll explain why.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr S's complaint.

First Direct needed to make sure it didn't lend irresponsibly. It was required to carry out proportionate checks to understand whether Mr S could afford to repay before providing the loan. This means First Direct needed to take reasonable and proportionate steps to check that making the loan repayments wouldn't cause Mr S undue difficulty or have adverse consequences.

There aren't set rules about what a proportionate check should include and a proportionate check could look different for different applications.

But we might think the lender needed to do more if, for example, a borrower's income was low, the amount lent was high, or if a borrower would be indebted for a lengthy period of time. 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 it didn't continue to lend to its customer irresponsibly.

There may also be other factors which could influence how detailed a proportionate check should be, for example, any borrower vulnerability or foreseeable changes in future circumstances.

When Mr S was provided with the loan, First Direct was required to understand whether he could sustainably repay the full amount it was prepared to lend.

When providing Mr S with the loan, First Direct says its checks showed:

- *Mr S declared he was earning £72,250, verified through current account turnover (CATO). It calculated this to be around £3,800 net per month.*
- *Based on modelled (statistical) spending alongside credit commitments (using internal and bureau information), Mr S's disposable income was around £2,486 per month. The modelled spending figures were as follows: £456 for essential spending such as council tax, utilities, food, clothing, etc. and £356 for rent. First Direct said as Mr S said he was married it considered these expenses would be shared. It also calculated Mr S's existing credit repayments were £512 per month according to credit bureau information at the time of application.*
- *Mr S had no recorded bankruptcy or County Court Judgments ("CCJs").*
- *Mr S had one default.*
- *Mr S declared the purpose of the loan was debt consolidation.*

Whilst I appreciate Mr S feels First Direct ought to have contacted his employer to verify the information he'd disclosed about his employment, I don't think that would have been proportionate in the circumstances of this case. I say this because Mr S declared he was employed, First Direct could see Mr S did have an income (via CATO), and Mr S confirmed he didn't expect his circumstances to change. So I don't think there was anything about Mr S's application or from the information First Direct found, that ought to have prompted First Direct to carry out further checks on his employment.

It appears there has been some debate between the parties on the method used to verify Mr S's income and how much his monthly income was, but in fact, it seems the salary quoted by Mr S and the figures used by First Direct, are very similar – between £3,700 and £3,800 per month.

In other commentary to our service, contrary to what it said the checks at the time found, First Direct has noted Mr S had three defaults with a total value of around £3,000, the most recent default dating back to over 50 months prior to this loan application. Also, that Mr S had seven active accounts and he'd applied for a personal loan with First Direct for £15,000 in June 2024 but this was declined. It's important to note I haven't seen evidence of First Direct's credit checks at the time of lending as it said this information isn't retained. Given this and given that I've received some conflicting information from First Direct on what its checks showed, I don't have sufficient evidence to say checks were proportionate at the time of lending.

But even if First Direct had provided evidence of its credit checks, I think proportionate checks would also have extended to checking Mr S's committed living expenses. It appears First Direct only asked Mr S what his personal contribution to paying rent or a mortgage cost him each month but didn't ask him about any of his other essential spending. Despite his relatively high disclosed income, Mr S would be indebted for a sizeable sum over a significant period of time, committed to paying around £270 every month. And, he did have some outstanding defaults, albeit historic, which, given they weren't yet paid off, may indicate financial difficulty. Whilst I accept there is a place for the use of statistical data in income and expenditure assessments, in the circumstances of this case, I don't think modelled spending ought to have been relied on. Instead, First Direct ought to have obtained further information about Mr S's actual committed living expenses.

So, overall, I'm not persuaded First Direct's checks were proportionate.

As First Direct didn't carry out proportionate checks, I've considered what proportionate checks would have likely shown. In other words, what First Direct is likely to have seen, had it obtained further information about Mr S's regular non-discretionary, committed living expenses and credit information at the time of lending.

To help our service understand what his committed living expenses looked like, Mr S has provided a list of his income and expenditure at the time, alongside his bank statements. It's important to say that First Direct wasn't required specifically to request and check Mr S's bank statements as part of its lending checks. Instead, it needed to take reasonable steps to obtain information about Mr S's outgoings as outlined above. But in the absence of this, I've relied on Mr S's statements to recreate what proportionate checks would have likely revealed.

Mr S has provided bank statements for three different accounts. We've seen statements Mr S appears to use for spending, covering at least three months leading up to the lending. I'm satisfied we can see, based on these statements, Mr S's committed living expenses. Mr S has confirmed his partner didn't have an income and wasn't contributing to the household expenses. I can see Mr S paid the household's main outgoings from his account although he did have some transfers into his account from what appears to be his partner.

Whilst Mr S has said he was responsible for the full rent payments, First Direct has provided evidence that Mr S answered "0" when asked for his personal contribution towards housing costs during the application. Given First Direct had already asked Mr S about his rent, I don't think it needed to ask him again, despite Mr S answering in this way. But even if it did, I've not seen enough to persuade me that Mr S's answer would have been any different. Instead, and to exercise caution, First Direct used statistical data to apply a figure for Mr S's rental costs. Given I've said proportionate checks wouldn't have extended to checking bank statements, I think in the circumstances of this case, it was reasonable for First Direct to rely on the figure it used of around £356.

I've reviewed Mr S's bank statements and taken into account Mr S's income, committed living expenses including £356 for rent, and credit commitments. I've assumed in my calculations that Mr S was, as he has told us, responsible for all of the other household bills and expenditure in full although I have counted the transfers in and out of his account to and from his partner. After doing this, I'm satisfied, after making the monthly payment of £270 towards this new loan, proportionate checks would have shown he would have been left with sufficient disposable monthly income for any unforeseen circumstances.

Mr S has also provided a copy of his credit report – I've reviewed this in order to verify and clarify what First Direct says it saw when carrying out its credit checks, given I've said checks in this area were also not proportionate.

I can see two defaults on Mr S's credit report, one of them settled and one of them with a balance of around £847 at the time of lending. Mr S only had access to around £1,000 in credit card limits and his total credit card balance was around £159, on one card. Mr S had a motor finance loan for around £18,000. There was some adverse information showing on his credit report; he'd had sustained arrears from October 2018 on one account, but this was then settled in November 2022. Mr S also missed a payment on six occasions on a credit card between June 2019 and May 2022.

Although there is some adverse data showing on Mr S's credit report, I'm satisfied this was historic; the defaults had happened some years before and only one appeared to have a balance. Whilst Mr S had missed some payments more recently, there wasn't any adverse information showing since 2022 – almost two years before this lending happened. And as Mr S has said, there were some buy-now-pay-later and short-term loans showing – but all had been settled apart from one buy-now-pay-later agreement, which was up to date. Mr S's credit report is also showing he had several closed credit accounts where he'd maintained payments and hadn't incurred any arrears. So, despite the adverse data showing, it's fair to say this wasn't a reflection of how Mr S was managing his current credit. In fact, I can see Mr S had low active external credit limits and balances, showing he didn't appear to be over-indebted.

I appreciate Mr S's actual situation may differ from what I've described above. For example, I'm aware he says he was responsible for paying all of the rent and his DMP wasn't showing on his credit report. But I must consider what proportionate checks would have likely shown. And from the evidence I've seen, I think proportionate checks would have likely shown Mr S was managing his current credit well, wasn't over-indebted and had a large amount of disposable income. I'm therefore persuaded that had First Direct carried out proportionate checks, it would have likely found the lending affordable for Mr S and in all the circumstances of this case, it wasn't wrong for it to lend.

I also appreciate Mr S has explained how this situation has impacted him and I'm sorry to hear this. I recognise his strength of feeling on the matter and know Mr S will be disappointed with this outcome. First Direct should treat Mr S with forbearance, in line with its obligations.

Finally, I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think First Direct lent irresponsibly to Mr S or otherwise treated him unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

My provisional decision

For the reasons I've explained, I don't intend to uphold Mr S's complaint."

First Direct didn't respond to my provisional decision but Mr S didn't agree. In summary, he said:

- That the provisional decision is contradictory as it says First Direct shouldn't have relied on modelled spending but then says it was reasonable for First Direct to have relied on statistical data for Mr S's rental costs. Mr S says both scenarios cannot be true.
- The screenshot of First Direct's system doesn't appear to be from his application as it states his salary was £50,000 – therefore it can't prove he entered zero for his housing commitments.
- His rental agreement appears in the credit report he submitted – First Direct and the

Ombudsman should have seen it. First Direct should have relied on this figure from his credit report rather than relying on statistical data.

- On this basis, First Direct should have asked Mr S about his rent again and he questions what proof there is to show if asked again, he'd confirm his housing commitments were zero. Mr S feels this assumption is based on his character and he feels judged because of this. Given the Ombudsman knows nothing of his character, it cannot be reasonably concluded he would confirm his housing costs as zero, if asked again.

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 and after considering Mr S's points carefully, I'm not upholding this complaint. I want to thank Mr S for taking the time to provide his comments and I know this will come as a disappointment to him. I'll explain my reasons below.

Turning first to First Direct's evidence to show what Mr S declared during his application. Mr S is correct in saying that the screen shot showing the application questions isn't from his specific application – rather, it's a sample screen shot showing what questions he was asked. There is an additional screen to accompany this, which has also been shared with Mr S, showing the answers inputted by him. In the column entitled "m_mortgage_rent (Customer Stated)" there is a "0". Taking these pieces of evidence together, I'm satisfied Mr S was asked about his housing costs and that he declared zero.

I'm sorry Mr S feels I've made assumptions about his character and that I've judged him – I can assure him that isn't the case. It's my role to consider, on balance, what I think is most likely. My comments around how I think Mr S would have answered, had he been asked again about his housing costs were based only on the way he had answered in the first instance.

In any event, I don't agree First Direct should have asked Mr S about his housing costs again. It had asked him as part of the application process and Mr S declared he wasn't responsible for any. In the absence of being provided with any housing costs, it's at this point I've said it's reasonable for First Direct to rely on statistical data. Because by doing so, it was exercising conservatism before lending. Even if First Direct had seen Mr S's rental agreement on his credit report, that doesn't tell it what Mr S's personal contribution was. What's key is that First Direct didn't need to assume he paid anything – because that's what Mr S had told it. So ultimately, I don't think First Direct did anything wrong by assuming he paid something towards it, even if we now know that figure wasn't accurate.

Finally, I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think First Direct lent irresponsibly to Mr S or otherwise treated him unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

My final decision

For the reasons I've explained, my final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 16 December 2025.

Sophie Kyprianou
Ombudsman