

The complaint

Ms C says HSBC UK Bank Plc made a number of mistakes after she took out a top-up loan that was not affordable for her.

What happened

Ms C took out a top-up loan for £1,930 over 18 months on 2 May 2025. The repayments were £122.68 each month. The following day she wanted to cancel it and re-instate her old loan. This wasn't possible as when she topped up her existing borrowing, the existing loan was paid off and replaced with this new one. In line with the terms and conditions of the product she could only cancel it if she repaid the balance within 30 days. When she spoke to HSBC at the time however she was given inaccurate information that led her to believe it would be possible.

HSBC apologised for the poor service and paid Ms C £250 compensation but explained it could not re-instate her old loan. It signposted her to its Financial Guidance Team for repayment support.

Our investigator reviewed HSBC's lending decision for the top-up loan, as well as how it had resolved the service complaint. He found HSBC's checks before lending were proportionate but it did not make a fair lending decision. He found the compensation paid for poor service to be fair.

HSBC disagreed with this assessment saying it had considered that Ms C would be left with net disposable income each month of £88. It found this to be reasonable as its data shows no difference in the delinquency rates (customers failing to repay) where affordability was marginal versus the average customer.

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 approach to complaints about irresponsible and unaffordable lending on our website and I've followed it here.

Before agreeing to lend, HSBC needed to complete reasonable and proportionate checks to ensure that Ms C could afford to repay what was being lent. There's no set list of checks that a lender has to complete, but the checks need to take into account factors such as the amount of the loan, the amount of the repayments and the borrower's financial circumstances.

I've thought about whether HSBC carried out reasonable and proportionate checks for this loan. I've then looked at the information HSBC obtained from Ms C when she applied for the top-up loan and the information it obtained from the checks it carried out to assess whether it made a fair lending decision. And finally, I have considered if HSBC acted unfairly in some other way.

HSBC checked certain information about Ms C's circumstances before lending. This included her income and her housing and living costs. It verified her declared income using the information it held as Ms C's current account was at HSBC. It used modelled essential monthly spending to better estimate her expenditure. It carried out a credit check to understand the cost of her existing credit commitments and her repayment history. Based on these checks HSBC calculated Ms C would have sufficient disposable income to be able to repay the loan sustainably.

I think these checks were proportionate, but I don't think HSBC made a fair lending decision. I'll explain why.

HSBC learnt through its checks that Ms C's net monthly income was £1,689, her housing costs were £552, her living costs were £623 and her existing credit commitments were £302. This meant after taking on this loan she would have £88 disposable income remaining each month.

HSBC argues that its data shows that customers with marginal affordability, like Ms C, are no more likely to go delinquent (build up arrears) than the average customer. But this seems a measure very focused on whether the bank gets its money back, rather than considering if Ms C is likely to be able to make her repayments over the term of the loan without suffering adverse financial consequences or having to borrow to repay. I would argue leaving Ms C with £88 to cover any unexpected or seasonal costs given the cost of living in May 2025 does not demonstrate that HSBC had the reassurances it needed that there was no risk its loan could cause Ms C financial harm. And it needed to consider this to meet its regulatory obligations.

It follows I find it was wrong for HSBC to give this top-up loan to Ms C.

Did HSBC act unfairly towards Ms C in some other way?

Ms C wanted HSBC to cancel this loan and re-instate her old loan, but it could not do this. As the terms of her new borrowing made clear that if she was to exercise the right to withdraw from the new agreement meant she would need to repay the balance within 30 days. The old loan could not be reinstated as it had been settled by the new loan. So, I don't find HSBC was at fault in that regard. It did however give Ms C misleading and incomplete information when she called to cancel the new loan on 3 May 2025. But it accepts this and has apologised. It paid £250 compensation to Ms C to recognise how its poor service impacted her; I find this to be fair and reasonable.

Putting things right

As I don't think HSBC ought to have given the top-up loan to Ms C, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Ms C should pay back the capital amount she borrowed as she received that money.

Therefore, HSBC should:

Add up the total repayments Ms C has made and deduct these from the total amount of money Ms C received.

a) If this results in Ms C having paid more than they received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement). † HSBC should also remove all adverse information regarding this account from Ms C's credit file.

b) If any capital balance remains outstanding, then HSBC should arrange an affordable payment plan with Ms C. Once Ms C has cleared this balance, any adverse information in relation to the account should be removed from their credit file.

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

I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Ms C 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.

My final decision

I am upholding Ms C's complaint. HSBC Bank UK Plc must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms C to accept or reject my decision before 22 December 2025.

Rebecca Connelley
Ombudsman