

The complaint

Miss S complains HSBC UK Bank Plc acted unfairly by defaulting her account when she was making repayments. She also says HSBC treated her unfairly when assessing the amount she could repay each month.

What happened

After a change in her personal circumstances Miss S completed an account switch, moving her HSBC current account to a new provider in January 2024. However, after the switch was completed Miss S became aware she hadn't included her HSBC overdraft, which was due for re-payment.

Miss S next contacted HSBC in April 2024 and agreed to repay £20 each month, towards the overdraft. However, HSBC defaulted the account around June 2024 and passed it on to a debt recovery company for collection. In December 2024 Miss S repaid the outstanding amount in full but as the default would remain on her credit file for six years from the date it was recorded, she complained.

In summary Miss S said HSBC had defaulted the account and passed it to a third party, even though she was making repayments. And it had tried to pressure her to pay more than she could afford when setting up the plan.

HSBC reviewed matters but didn't agree it had acted unfairly. It said it was required to report a true and accurate reflection of Miss S' account conduct to credit reference agencies (CRAs), and was also required to send a notice of default.

As Miss S remained unhappy, she contacted this Service. An Investigator here reviewed matters but overall didn't think HSBC had acted unfairly in recording a default or asking a third party to collect the debt. But they did think HSBC acted unfairly in the service it provided when assessing the amount Miss S could afford to repay. And for this they recommended HSBC pay £50.

Miss S didn't agree with our Investigator's opinion. In summary she said as she was in an active repayment plan, agreed by HSBC, it was unfair to issue a default notice. She also said HSBC hadn't clearly explained the default would be registered on her credit file or the account passed to a debt collection agency.

HSBC also didn't agree compensation of £50 should be awarded, saying if there is affordability for a higher payment it must be explored – so a customer isn't impacted for longer than necessary.

As no agreement has been 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.

Firstly I'd like to say I was sorry to hear of the personal circumstances Miss S found herself in, I can appreciate it would have been a very difficult time for her. So I'd like to reassure Miss S I've taken this into consideration when coming to my decision.

Where evidence has been incomplete, I've reached my view on the balance of probabilities – what I think is more likely than not to have happened given the available evidence and wider circumstances. I'm aware Miss S doesn't consider this reasonable and says HSBC should retain certain information for longer. However, it's not for this Service to say how long information should be retained. I also cannot fine or punish a business, so I must come to a decision based on the information available and, as explained, where that is limited, it's only fair I make a decision on what I think more likely than not happened.

Defaulting Miss S' account

I understand why Miss S is upset HSBC defaulted her account, even after she set up a repayment plan with it. However, HSBC were entitled to ask Miss S to repay the overdrawn amount, given she'd completed an account switch, effectively asking to close the account. And it's something Miss S agreed to within the terms and conditions of the account. Financial businesses, such as HSBC, are also allowed to default an account, even when a repayment plan is in place, as it did here. So I'll consider whether it did so fairly and in the way I'd expect.

HSBC wrote to Miss S on a number of occasions between January and April 2024, asking her to repay the overdrawn amount. These letters also explained the steps HSBC would need to take should repayment not be made, namely sending a notice of default and final demand as well as reporting information to CRAs. HSBC also provided contact information within these letters for third-party organisations able to support Miss S in repaying her debt.

Miss S has said she hadn't understood the consequences of notice of default and doesn't consider this was explained to her, however having read the various letters HSBC sent I think it explained this sufficiently. And, had Miss S not understood, she had the option to contact HSBC before she did so or the third-party organisations, as explained above.

Miss S didn't contact HSBC until around 24 April 2024, at which point she arranged to set up a monthly repayment of £20, to reduce the outstanding overdraft. On this point, I'm aware Miss S considers HSBC treated her unfairly when assessing the amount she could afford to repay, which I'll come on to later in this decision.

While HSBC agreed to accept repayment of £20 each month from Miss S, this doesn't mean it cannot also decide to default the account. It sent Miss S a final demand on 7 May 2025. In this it said:

“Thank you for getting in touch about making payments to reduce the balance – we encourage you to pay what you can afford, but unfortunately these payments aren't enough to pay off the overdrawn amount within a reasonable time.”

The final demand went on to say:

“If you fail to pay by 25 May 2024 we:

- may close your account and take steps to recover the amount you owe through our Repayment Services team. They will get in touch to discuss this with you;*
- will disclose information about the default on your account, including the date and amount outstanding, to the Credit Reference Agencies listed below...”*

While Miss S was making monthly repayments towards the outstanding debt, she ultimately wasn't able to repay the full amount by the date HSBC required.

I think it would be helpful to point to information from the Information Commissioner's Office (ICO). This says financial businesses should usually apply a default at the earliest when someone is three months in arrears, and no more than six months in arrears. I think this is a reasonable standard to apply, so I'll consider these timeframes in Miss S' case.

By the time Miss S contacted HSBC, she had been in arrears since at least January 2024, so over three months. And based on Miss S' repayments of £20 a month, the arrears would not be cleared within six months. As such, based on the ICO guidance and what HSBC understood from Miss S, it seems reasonable it made the decision to default her account.

I've also taken on board Miss S' comments about her ability to repay the overdraft when her house was sold and that she did ultimately repay the amount in full in December 2024. I've not seen evidence HSBC were told about the house sale, but I've no reason to doubt what Miss S has said. However, there isn't a guaranteed time frame for house sales, and typically it's a long process – so I don't think HSBC acted unreasonably in defaulting the account before this happened.

As noted above, there's limited information available about the discussion that took place in April 2024, when Miss S used HSBC's online chat to set up a repayment plan. That's because HSBC doesn't retain this information for longer than twelve months. Generally speaking, I would expect HSBC to explain to Miss S that a repayment plan wouldn't prevent a default from being applied. And as our Investigator explained, it's more likely than not, based on the information available, this happened. But even if HSBC didn't explain this in detail, it wouldn't change the outcome here.

I say that for a number of reasons, firstly, because HSBC had already sent a notice of default setting out what would happen if repayment wasn't made and later sent a final demand, as explained above. So I think it did enough to make Miss S aware it would default the account if payment wasn't made in full by 25 May 2024, which didn't happen. And in addition, Miss S has said she was paying as much as she could afford. So, even if Miss S wasn't told about the default – which as I've found above, I think it's more likely than not she was – this wouldn't change my thoughts on this point either. As ultimately, she was unable to meet the repayments required to pay off the overdraft by the date set.

It's also reasonable HSBC asked a third party to collect the debt and is something it's entitled to do. So I don't consider it acted unfairly in this regard either.

For completeness, while I appreciate Miss S was struggling financially and was experiencing difficult personal circumstances at the time, as explained it doesn't mean HSBC acted unfairly in this case.

In summary, HSBC hasn't acted unfairly in how it's handled matters here. It was reasonable for it to ask Miss S to repay the overdrawn amount, and it gave her sufficient support and time to do this. Because Miss S' repayments weren't sufficient to repay the amount in a timely manner, HSBC acted fairly in its decision to default the account in line with the ICO guidelines, giving sufficient notice. I understand Miss S is concerned about the impact this might have on her credit history, but HSBC has a duty to make sure the information it reports to CRA's is correct – and what it reported here is a true reflection of what's happened. So I don't think HSBC has acted unfairly.

Repayment amount

Miss S has also complained she felt pressured into repaying more than she could afford when setting up the monthly repayment. She's said this caused significant distress and anxiety during what was already a very difficult time.

Our Investigator considered this and said, based on Miss S' disposable income, after debt repayments were accounted for, she'd already offered to repay around half of her remaining funds to HSBC. As such, they didn't consider it fair for HSBC to ask Miss S whether she could pay more. For this they recommended it pay compensation of £50.

I've taken on board what HSBC has said about the income and expenditure (I&E) and that Miss S confirmed it was accurate. But having reviewed the I&E, I agree with our Investigator that several typical financial commitments are missing and some amounts are unusually low. Given what HSBC knew about Miss S' circumstances and considering her financial difficulties I agree it could have provided a better service here. And, while HSBC are required to ensure its customers aren't impacted by debt for longer than necessary, any increase to Miss S' repayments, however small, looks to have been unaffordable.

So overall, taking everything together, I agree, HSBC could have handled matters better and as such payment of £50 compensation in the circumstances seems reasonable.

My final decision

For the reasons explained above, I uphold this complaint and require HSBC UK Bank Plc to pay Miss S £50.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 9 March 2026.

Victoria Cheyne
Ombudsman