

The complaint

Mr M complains about how HSBC UK Bank Plc trading as first direct apply payments to his credit card account.

What happened

Mr M says that despite paying off his balance early. He has received a letter from first direct stating that he is in arrears and must take action. However, first direct has also confirmed that he is technically not in arrears. He is concerned by the contradictory information he has received.

Mr M says that the issue stems from first direct payment processing system, whereby when a repayment is made on the date his statement is produced, the system doesn't credit the payment to either the previous or the current statement period. And as a result, while his balance shows as zero, he is classed as being in arrears. Mr M complains that this has the potential for him to incur late fees and credit file damage.

first direct responded to Mr M but it didn't uphold his complaint. It explained how the payments have been applied. And ultimately, it didn't think it had done anything wrong.

When the complaint was referred to this Service first direct offered Mr M £100, as it said its explanation of what had happened could have been clearer, but Mr M didn't accept this, stating that it didn't address his complaint. He clarified what his complaint was about and said:

My complaint is that paying off an outstanding credit card balance early (resulting in a zero balance) can according to First Direct lead to incurring fines or late fees, having my credit card revoked, and risking damage to my credit ratings. It certainly leads to threatening letters.

The Investigator considered the evidence provided by both parties, but they didn't find that first direct had done anything wrong. They explained to Mr M what happens when he makes a payment on his statement day, but before the statement is produced. They felt that the £100 first direct had already offered for the explanation as to what had happened was fair. And so they didn't require first direct to do anything more.

Mr M didn't agree with the Investigators view, and I have summarised his main points below:

- He wants a written explanation of the arrears from first direct.
- Making payments 'on the due date' does not form part of first direct terms and conditions, he is only required for the payment to be credited to his account before the due date, which he says he has done.
- There appears to be a 24 hour window during which first direct doesn't credit payments to either his current or previous statement. And it is difficult to predict what date the statement will be produced as this happens on different dates each month.

- He has received contradictory information in the arrears letters he has received about what he needs to do next.
- He has had to contact first direct and wait a week to find out if he will be subject to credit file impact or default charges.
- There is nothing in first direct's terms and conditions stating that paying off balances on the statement date results in arrears and payment of default sums and interest may be due.
- If I am to find that Mr M wasn't in arrears, then first direct's systems are flawed and need to be changed.

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

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 considered all of the evidence available to me, I won't be asking first direct to do anything more for Mr M, other than what it has already agreed by paying him £100.

I think it's important to firstly explain I've read and taken into account all of the information provided by both parties, in reaching my provisional decision. I say this as I'm aware I've summarised Mr M's complaint in considerably less detail than he has. If I've not reflected something that's been said it's not because I didn't see it, it's because I didn't deem it relevant to the crux of the complaint. This isn't intended as a discourtesy to either party, but merely to reflect my informal role in deciding what a fair and reasonable outcome is. This also means I don't think it's necessary to get an answer, or provide my own answer, to every question raised unless I think it's relevant to the crux of the complaint.

Statement periods are generally a month long. It appears Mr M's statement is produced on or around the 8th of each month. And the payment due date is around 25 days *after* the statement is produced.

In Mr M's case then, it appears he is making a payment before his statement has been produced. Because the payment hasn't cleared by the time the statement is produced, the statement shows an outstanding balance with a minimum payment due. And once the payment is cleared, it is recognised as having been received in the previous month (prior to the statement), because that is when it was made. Where no repayment has been made between the statement being produced and the payment due date, first direct's systems doesn't recognise that a payment has been made by the due date, and therefore automatically sends out a letter letting Mr M know that he is in arrears, when sometimes this might not be the case, because he has cleared his balance.

I can understand why these types of letters might be frustrating and concerning for Mr M – especially when in his view, he isn't in arrears because he has made a payment to clear his balance. I understand Mr M wants this service to order first direct to change the way its systems operate to stop this happening again in the future. But I'm sorry to disappoint Mr M, but this service doesn't have the power to order first direct to change its systems or processes. But in any event, the system is designed to flag any payments that haven't been made after the statement has been produced and by the payment due to date set out in the statement – this is to support and notify customers who have missed payments.

I can't fairly find that first direct has done anything wrong in the way it is applying payments to Mr M's account; I say this because Mr M is making payments that he intends to be towards the next statement before it has been produced. So, first direct is correctly applying the payment to the statement month in which it was paid.

But I do accept that it isn't accurate of first direct to send Mr M a letter saying that he is in arrears when his balance has been cleared. But as I've explained, this is an automated process, and I can't order HSBC to change its processes. But I will consider the impact of this later in this decision.

Given that Mr M is now aware of what happens when he makes a payment on his statement date and prior to the statement being produced, I don't think it would be unreasonable for him to consider mitigating the distress or frustration the situation causes him. To do this he could wait until his statement has been produced before making the payment. This will avoid HSBC's systems thinking that no payment has been made. Essentially what I'm saying here is that if Mr M makes a payment *after* the statement has been produced, but before the payment due date, he shouldn't receive arrears letters from first direct. Of course, Mr M is entitled to continue making payments in the way he has been. But this could result in him continuing to receive arrears letters, and if he doesn't pay the full balance, then it could lead to late fees being applied to his account and impact to his credit file. In addition to this, first direct has explained that it can email customers to let them know when the statement has been produced, so if Mr M waits for this email, and makes a payment after he has checked the transactions on his statement (but before the payment due date), then he shouldn't receive this type of communication from first direct as it will have received a payment after the statement has been produced and before the payment due date.

I've also looked at the arrears letter Mr M was sent, that he states was contradictory. And didn't tell him what to do next. I can understand why in the circumstances of what's happened here why Mr M might have not known what action he needed to take, given that in his view he had repaid his balance in full. However, the letter does state that if a payment has been made to clear the arrears, then there's nothing he needs to do. Therefore, if Mr M had made a payment, which he knew he had, he didn't have to do anything.

first direct has offered to pay Mr M £100 to reflect some confusing information it provided him about what had happened and why. I have considered whether this payment is enough, and when taking into account the arrears letters Mr M received. Having done so, I'm satisfied it is. I can understand why both issues would have been frustrating and concerning for Mr M. But there has been no impact further than potential frustration and concern – for example, he hasn't been charged interest or had his credit file impacted as a result. I should also add I've not seen anything wrong in what first direct have done in terms of processing Mr M's payments. Therefore, I'm satisfied the £100 is enough to put things right here.

My final decision

HSBC UK Bank Plc trading as first direct has already made an offer to pay £100 to settle the complaint and I think this offer is fair in all the circumstances.

So my decision is that HSBC UK Bank Plc trading as first direct should pay £100.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 2 April 2026.

Sophie Wilkinson
Ombudsman