

Complaint

Miss D has complained about a credit card and subsequent credit limit increases that HSBC UK Bank Plc (“HSBC”) provided to her. She says the credit card and limit increases were not affordable for her and so shouldn’t have been provided.

Background

HSBC provided Miss D with a credit card with an initial limit of £500 in September 2012. Miss D’s credit limit was increased to £1,500.00 in September 2016; before it was then subsequently increased to £3,500.00 in October 2017.

Miss D has also since complained about her overdraft and HSBC sending correspondence to an incorrect address. However, we’ve told Miss D that we’re looking at her overdraft separately and she would need to contact HSBC about any mail being sent to an incorrect address, in the first instance. In the circumstances, this final decision is solely concerned with whether HSBC acted fairly and reasonably towards Miss D in relation to her credit card.

One of our investigators reviewed what Miss D and HSBC had told us. She thought that HSBC hadn’t done anything wrong or treated Miss D unfairly in relation to providing the credit card in September 2012, or when increasing Miss D’s credit limit in September 2016. However, she also believed that HSBC ought to have realised that it shouldn’t have increased Miss D’s credit limit to £3,500.00 in October 2017. So she recommended that Miss D’s complaint should be upheld.

HSBC accepted the investigator’s assessment and agreed to pay compensation. But Miss D disagreed as she didn’t think that this went far enough. She asked for an ombudsman to look at her complaint and make a final decision.

As the parties are in agreement with the outcome on the limit increase which HSBC offered to Miss D in October 2017 this final decision is only considering whether HSBC acted fairly and reasonably towards Miss D when providing her with her credit card in September 2012 and/or increasing her credit limit to £1,500.00 in September 2016.

My findings

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

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 Miss D’s complaint.

Having carefully considered everything, I’m satisfied that what HSBC has already agreed to do for Miss D is fair and reasonable in all the circumstances of her complaint. And I’m not requiring it to do anything further. I’ll explain why in a little more detail.

HSBC needed to make sure it didn't lend irresponsibly. In practice, what this means is HSBC needed to carry out proportionate checks to be able to understand whether Miss D could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, 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.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. 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.

HSBC says it initially agreed to Miss D's application for a student credit card with a credit limit of £500 after it obtained some information on the funds she received and it carried out a credit search.

It says that the information obtained will have indicated that Miss D would be able to make the low monthly repayments due for this credit card. Due to Miss D's account being relatively well managed she was then offered the credit limit increase to £1,500.00.

On the other hand Miss D says that she shouldn't have been lent to and the credit was provided at a time when she was a student.

I've considered what the parties have said.

HSBC'S decision to provide Miss D with a credit card with a limit of £500

HSBC has been unable to provide the output of the credit checks it carried out before applying for her credit card. But given these credit checks were carried out a number of years ago, more than a decade before Miss D made her complaint, I don't find this too surprising. And I've not drawn any adverse inferences from this.

In any event, I've not seen anything to indicate that Miss D will have had any significant adverse information – such as defaults or County Court Judgments (“CCJ”) – recorded against her at this time. So it's unlikely that the credit search will have shown that Miss D shouldn't have been lent to under any circumstances at this stage.

What's important to note is that Miss D was provided with a revolving credit facility rather than a loan. And this means that to start with HSBC was required to understand whether a credit limit of £500 could be repaid within a reasonable period of time, rather than all in one go. A credit limit of £500 required relatively low monthly payments in order to clear the full amount owed within a reasonable period of time.

I understand that Miss D was a student so didn't have earnings from work. But Miss D will have had to be in receipt of some student funding in order to qualify for student terms from HSBC. I accept that Miss D says that student funding shouldn't be regarded as income and this in itself is a reason to uphold her complaint.

However, these funds were funds that Miss D was in receipt of. Therefore, I don't think that it was unreasonable for this to be taken into account – particularly as there was (and there remains) no prohibition on a lender doing so and a credit card can provide a borrower with certain protections in relation to items bought with the funds borrowed, which student funding in itself simply will not provide.

Given the information HSBC obtained and what it is likely to have shown, I'm satisfied that HSBC was entitled to rely on this as well as what it is likely to have seen in the credit checks which led it to determine that an initial credit of £500 would be affordable for Miss D.

As this is the case, I'm satisfied that the checks carried out before Miss D was initially provided with her credit card were reasonable and proportionate and it wasn't unfair for HSBC to lend to her in these circumstances.

The credit limit increase to £1,500.00 in September 2016

For the credit limit increase, it appears as though HSBC relied on a combination of the activity on Miss D's account together with information from credit reference agencies on the amount she owed elsewhere. From what I can see Miss D was using less than half the credit limit on available to her on this card. So it's fair to say that she wasn't showing a reliance on her credit card.

Furthermore, Miss D did appear to have had five active accounts with other lenders. But she only owed a total amount of £1,740.00. Miss D doesn't appear to have had any significant adverse information – in the form of defaults or CCJs – recorded against her at this stage either. Again this doesn't suggest that she was having difficulty with managing credit.

Equally, although HSBC hasn't been able to provide Miss D's credit card statements from as far as the time of the first limit increase, because of the length of time that passed, it has nonetheless provided a record suggesting Miss D's average payment in the six months leading up to this was around £100.

Payments of this amount were more than enough to clear a balance of £1,500.00 within a reasonable period of time. It's also worth noting that the earliest statement that has been provided does appear to indicate that Miss D was managing a credit limit of £1,500.00 well at this time – indeed she had a zero balance.

In these circumstances and in the absence of anything else to show that Miss D didn't have the funds to repay £1,500.00 within a reasonable period of time in September 2016, I'm satisfied that HSBC didn't act unfairly or unreasonably when offering to increase her credit limit at this stage.

So overall while I can understand Miss D's sentiments and sympathise with the difficult time she has gone on to have, I don't think that HSBC treated Miss D unfairly or unreasonably when providing her with her credit card in September 2012 or subsequently increasing her credit limit to £1,500.00 in September 2016.

As this is the case, I'm satisfied that what HSBC has already offered to do to put things right for Miss D is fair and reasonable in all of the circumstances of this case and I'm not requiring to do anything further. I appreciate this will be very disappointing for Miss D. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

Fair compensation – what HSBC needs to do to put things right for Miss D

Having carefully considered everything, I think that it would be fair and reasonable, in all the circumstances of Miss D's complaint, for HSBC to put things right in the following way (which it has already agreed to do):

- rework Miss D's account to ensure that interest is only ever charged on the first £1,500.00 outstanding - to reflect the fact that the second credit limit increase to £3,500.00, in October 2017, should not have been provided. All late payment and over limit fees should also be removed;
- if an outstanding balance remains on Miss D's account once all adjustments have been made HSBC should contact Miss D to arrange a suitable repayment plan for this. If it considers it appropriate to record negative information on Miss D's credit file, it should backdate this to when it shouldn't have provided the additional credit in question in the first place;
- if the effect of all adjustments results in there no longer being an outstanding balance, then any extra Miss D paid should be treated as overpayments and returned to her along with 8% simple interest† on the overpayments from the date they were made until the date of settlement. If no outstanding balance remains on Miss D account after all adjustments have been made, then HSBC should remove any adverse information it (not any third party) has recorded from Mr M's credit file.

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

My final decision

For the reasons I've explained, I'm satisfied that what HSBC UK Bank Plc has already agreed to do for Miss D is fair and reasonable in all the circumstances of the complaint. And I'm not requiring it to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 17 June 2024.

Jeshen Narayanan
Ombudsman