

The complaint

Mr H complains that HSBC UK Bank Plc acted unfairly by defaulting a loan account he held during the time he was making agreed token repayments on his loan.

What happened

Mr H took a loan from HSBC in April 2023 that he agreed to repay in 60 monthly instalments of around £228. In December 2023 Mr H got in touch with HSBC to explain that he was facing financial difficulties and would be unable to make his contractual repayments for the foreseeable future.

Mr H agreed a token repayment arrangement with HSBC that would last for six months. He agreed to repay £25.10 each month. But, in February 2024 when Mr H's circumstances hadn't improved, HSBC sent him a default notice for his missed payments. And then it sent a final demand for full repayment his account the following month. Mr H's outstanding balance was transferred to a third-party collections company but has since been recalled and is being managed by HSBC.

HSBC didn't agree with Mr H's complaint. It said that it had acted in line with its regulator's guidance when it defaulted the account. It said it had sent all the necessary information to Mr H at each stage of its default process. But HSBC said it had noticed that it hadn't always dealt with Mr H's queries as it should – one call had been disconnected and some calls had been made after the repayment arrangement had been agreed. So it paid Mr H £75 for the inconvenience he'd been caused. Unhappy with that response Mr H brought his complaint to us.

Mr H's complaint has been assessed by one of our investigators. He thought that HSBC had acted reasonably in the way it had dealt with Mr H's loan account. He said that he was satisfied that HSBC had sent Mr H the required letters before the default took place. And he thought that HSBC had explained to Mr H that a default could take place even though a repayment arrangement had been agreed. So he didn't think the complaint should be upheld.

Mr H didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process.

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.

In deciding this complaint I've taken into account the law, any relevant regulatory rules and good industry practice at the time. I have also carefully considered the submissions that have been made by Mr H and by HSBC. Where the evidence is unclear, or there are conflicts, I have made my decision based on the balance of probabilities. In other words

I have looked at what evidence we do have, and the surrounding circumstances, to help me decide what I think is more likely to, or should, have happened.

At the outset I think it is useful to reflect on the role of this service. This service isn't intended to regulate or punish businesses for their conduct – that is the role of the Financial Conduct Authority. Instead this service looks to resolve individual complaints between a consumer and a business. Should we decide that something has gone wrong we would ask the business to put things right by placing the consumer, as far as is possible, in the position they would have been if the problem hadn't occurred.

To help me decide this complaint I have listened to a phone call (split into two parts due to the line being disconnected) between Mr H and HSBC when the repayment arrangement was set up in December 2023. That call was lengthy and lasted for almost three hours. So it isn't entirely surprising that Mr H might not remember everything that was discussed on the call.

The call arose when Mr H told HSBC that he was facing some financial difficulties. At times like that the regulator would expect HSBC to take steps to ensure that Mr H was treated fairly, with forbearance and with due consideration. It has provided firms with a number of examples of this sort of behaviour including the consideration of reducing or waiving future interest charges, allowing the payment of arrears to be deferred, or accepting token payments for a reasonable period of time.

But it is my understanding that the regulator's guidance isn't intended to leave debts outstanding for an indefinite period of time. Instead the requirement for lenders to show forbearance and due consideration to consumers who are facing financial difficulties is to allow a reasonable period of breathing space for consumers, facing an unexpected fall in their disposable income, to review their options.

Mr H told HSBC that it was unlikely his financial circumstances would improve in the foreseeable future. But to allow a period of time for Mr H to reassess his finances HSBC agreed to Mr H making reduced token repayments for up to six months. He was told that at the end of that period a further decision would need to be made about how to proceed with his loan. But, most importantly and contrary to Mr H's recollections, HSBC made him aware that it might need to continue with its normal default processes during the six-month period. Although Mr H asked for clarification a number of times, including him asking what the point of the six-month period was if default actions could take place, I don't think HSBC gave him any expectation that it wouldn't continue to review his debt during that time.

And that is what happened. HSBC says, and in fact told Mr H on the call, that once three payments have been missed it will generally start to default an account. HSBC sent Mr H a notice of default in February 2024. And when Mr H failed to pay the arrears on his account HSBC sent him a final demand for full payment the following month. I think sending both those letters was in line with HSBC's regulatory responsibilities.

Mr H says that neither letter was received by him, and the first time he was aware his account had been closed was when he saw the default added to his credit file. But the letters were sent to Mr H's home address. And HSBC says those letters were not returned as being undelivered. I am not aware of any problems with the delivery of mail around that time. So, on balance I think it most likely that at least one of the letters would have been received by Mr H. But in any case, even if the letters weren't received, I'm not persuaded that Mr H's finances were such that he could have taken action to prevent the default at that time.

So I am satisfied that HSBC has acted both in line with its regulatory responsibilities, and in line with what it told Mr H might happen, when it defaulted his account. And HSBC is required to report that information to the credit reference agencies. I appreciate that this decision will be very disappointing for Mr H, but I don't think HSBC has done anything wrong. So I don't think that the complaint should be upheld, or that HSBC needs to make any amendments to the information it is reporting on Mr H's loan.

My final decision

For the reasons given above, I don't uphold the complaint or make any award against HSBC UK Bank Plc.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 24 October 2024.

Paul Reilly
Ombudsman