

The complaint

Miss A complains that HSBC UK Bank Plc was irresponsible in its lending to her.

Miss A is represented by a third party but for ease of reference I have referred to Miss A throughout this decision.

What happened

Miss A was provided with a £7,000 loan by HSBC in July 2018. The loan was repayable over 60 monthly instalments of around £169. She said that at the time of the loan application she had other debts and had missed payments towards these. Since the loan was provided, she has taken out further credit which she says shows her reliance on debt. Miss A doesn't accept that HSBC carried out adequate checks to ensure she could affordably repay the loan before it was provided.

HSBC issued a final response letter dated 27 March 2024. It said that Miss A's loan application was credit scored and an affordability assessment was carried out based on Miss A's annual salary of £11,500, which was verified through her account turnover. It said that Miss A's credit check didn't raise any concerns and after considering her income against expenses the loan appeared affordable.

Miss A referred her complaint to this service.

Our investigator didn't uphold this complaint. She thought that HSBC carried out reasonable and proportionate check before the loan was provided. And that based on these the loan appeared affordable.

Miss A didn't accept our investigator's view. She explained that the amount she paid each month for her rent would vary and that she fell into arrears. She also said that she was in arrears with her council tax, was paying each month towards her catalogue account and paid for energy at pay points when she could afford it. She noted her other general living costs such as shopping, transport and her children's activities. She said that she can't afford her repayments, and this is affecting her mental health.

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.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

I am sorry to hear of the situation Miss A is in and I do not underestimate the stress her financial difficulties are causing her. But for me to uphold this complaint I would need to be satisfied that HSBC was wrong to provide the loan based on the information available to it at the time.

As part of the loan application process, HSBC asked Miss A about her employment, income and residential status. She declared that she was working part time with an annual salary of £11,500 and was a tenant. Miss A's bank account was with HSBC, and it verified her income through this. I find this reasonable.

HSBC carried out a credit check and has provided the outcome of this. It said that Miss A had no bankruptcies, county court judgements, defaults or arrangements recorded and no accounts in arrears. She had unsecured debt of £1,700. As the credit check didn't raise concerns and noting the loan repayments compared to Miss A's income and her outstanding debt at the time, I do not find it unreasonable that HSBC relied on its modelled expenses in its affordability calculations.

Based on the above, I find that HSBC carried out proportionate checks before the loan was provided.

However, just because I find that the checks were proportionate, this doesn't necessarily mean that the loan should have been provided. I have considered the information HSBC received through its checks to assess whether this raised concerns about the affordability of the loan or other concerns that meant the lending shouldn't have been provided.

Miss A's net monthly income based on her declared income was recorded as £896 and this amount was verified. HSBC included amounts of £344 for Miss A's utilities and general living costs and £246 for her rent. This left her around £300 which was enough to cover the cost of the loan repayments. Therefore, based on the information HSBC used in its assessment the loan appeared affordable.

However, I note that HSBC had access to Miss A's bank account statements and so I have also considered the information these contained to see if they should have raised concerns about the lending.

I have looked through Miss A's bank statements and these show that Miss A was receiving income from her employment as well as regular benefit payments. This gave a total average monthly income in the three months leading up to the loan application of around £1,410. Miss A was paying around £10 a month to the DVLA and around £168 for a car. She was making payments to her catalogue account which HSBC's credit check showed to have a balance of £1,700 at the time. Based on this it is reasonable to include monthly minimum payments of around £120. This left Miss A with disposable income for her rent and other general living costs and the new loan repayments of around £1,112. While Miss A's general living costs (such as food / other shopping) appeared to be higher than the amount included by HSBC (around £600 a month) including this into the calculations, doesn't suggest that the loan repayments of around £169 were unaffordable.

I've also considered whether HSBC acted unfairly or unreasonably in some other way given what Miss A has complained about, including whether its relationship with Miss A might have been unfair under s.140A Consumer Credit Act 1974. However, for the reasons I've already given, I don't think HSBC lent irresponsibly to Miss A or otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

I understand that Miss A is experiencing financial difficulties, and she has explained that she is in arrears with her priority bills. However, this appears to be the result of circumstances that arose after this loan was provided. Miss A was able to maintain her repayments on the loan until January 2021. So, based on the evidence I find that at the time the loan was provided, it appeared affordable for Miss A and therefore I do not uphold this complaint. However, given Miss A's current circumstances we would expect HSBC to treat her positively and sympathetically in regard to any outstanding balance.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 1 October 2024.

Jane Archer
Ombudsman