

The complaint

Mrs C complains about the interest applied and not refunded to her HSBC UK Bank Plc loan.

What happened

In January 2019, Mrs C took out a loan with HSBC for £11,000. The loan was due to be repaid over 60 months at a fixed interest rate of 10.9% per annum.

Mrs C took out the loan in branch, and she says she was told that she would receive a full refund of interest if she repaid the loan early. Mrs C made several settlement requests to HSBC – each time it provided her with information about how much she would need to pay to settle the loan, which also showed how much interest would be refunded if she settled at the time of the request. Mrs C repaid the loan in June 2023.

HSBC responded to Mrs C's complaint and said:

I'd like to clarify that when a Personal Loan is taken, the total amount of interest is added at the start of the agreement. Therefore, the outstanding balance at the start of your loan term was £14,396.28, made up of the £11,000.00 capital and £3,396.28 interest over the 60 month term.

When a loan is first taken the interest content of each instalment is relatively high and the capital repayment is relatively low. In the latter part of a loan, the interest content of each instalment is lower and therefore, more capital is repaid. Overtime the interest is repaid first, leaving the remaining capital to pay off towards the end of the term.

However, HSBC agreed to pay Mrs C £100 for potentially misinforming her at the time the loan was taken out.

An Investigator considered what both parties had said, however they didn't uphold Mrs C's complaint. The Investigator found that HSBC had correctly applied and refunded interest inline with the terms set out in the loan agreement. And they thought that HSBC's offer of £100 was more than fair for the information she says she received in branch.

Mrs C didn't agree with the Investigators view; however she didn't provide much reasoning as to why she didn't agree. 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 everything available to me, I won't be upholding Mrs C's complaint.

I have looked at the information provided in the loan agreement that Mrs C was provided with at the time of taking the loan. This states:

“We charge a fixed amount of interest which we add to the loan when we open the loan account. The total amount payable by you is the sum of interest and the loan. Although it is added upfront, we work out interest (and the APR) as if the loan amount was reduced by each projected repayment, using the interest rate, the number of monthly repayments and the period of the loan. For these purposes, we assume we provide the loan one month (or, if you have an initial payment holiday, three months) before the first repayment date.”

And

“If you repay part of the loan early, your monthly repayment will stay the same but you may repay the loan more quickly. If you repay the loan in full, the formula in the regulations we use to work out the reduced amount of interest we can charge, works as if we charged interest at the rate that applies to the loan from the date we gave you the loan to the date which is 28 days after you give us notice, plus an additional month if your loan is repayable over a period of more than 12 months. For example, if the loan is for 36 months and you give us notice on 1 September that you want to repay the loan on 14 September, the amount required to repay the loan will include interest up to 29 October.”

I can also see that Mrs C was provided with settlement quotes in 2019, 2020, 2022 and 2023. Each of these quotes show how much Mrs C would need to pay to settle the loan early and how much interest would be refunded if she settled by the settlement date set out in the quote. Based on all of the evidence I've seen, I think HSBC has calculated and refunded interest in line with the terms set out in the loan agreement. So, I can't say it has done anything wrong when providing Mrs C with quotes to settle the loan account early, or that the interest refunded was incorrect when she did settle the loan in June 2023.

I understand that Mrs C says HSBC have treated unfairly because she says she was told by someone in branch, at the time of taking out the loan, that she would receive a full refund of the interest if she repaid the loan early. While I can't be certain what Mrs C was told in branch, I find it unlikely that she was told she'd receive a full refund of interest if she repaid the loan early. That's because most loans will attract some interest, as this is the cost of borrowing the money. It is possible that she was told that she would receive a refund of *some* of the interest if she repaid it early – which is correct as set out in the terms of the loan. In any event, the loan agreement had the correct information in it, and I can see Mrs C was provided with a copy at the time of taking the loan. I note that HSBC has offered Mrs C £100 for potentially providing her with misleading information at the time of taking the loan, I think this is more than fair – and so it is now up to Mrs C to decide whether she wants to accept HSBC's offer.

My final decision

For the reasons set out above, I don't uphold Mrs C's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or reject my decision before 23 December 2023.

Sophie Wilkinson
Ombudsman