Debt Management and Balance Transfers – How UK Banks May be Prolonging Customer Debts by Payment Misallocation for profits.

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Amidst the prevarication linked to the Covid-19 pandemic and its associated reactions, it appears that the UK's banking sector should fall under fresh scrutiny like the PPI scandal entailed. Rife with allegations linked to the mismanagement of the 'bounce bank loans', it appears that a long shielded practice may be coming back to haunt the sector, highlighting how many vulnerable customers may have been victims to a rigged misallocation of payments that not only guaranteed increased profitability for the banks but also ensured that customers were burdened with debt for longer. At the forefront of this emerging scandal are our 'good' friends; HSBC.

In January 2018, I was looking to reduce my debt burden and manage planned holiday expenses for my family. I shopped around and found a HSBC 0% Balance Transfer (*20 months*), 0% Purchase (*3 months*) credit card. My application for the facility was successful and I was offered an initial £7000.00 allowance (this was later increased to £8000.00 within months). I did a balance transfer of £1700 from my Lloyds TSB credit card to my HSBC credit card. The Lloyds card had been attracting circa 29% interest and the balance transfer meant I could potentially pay off the entire balance within a fixed/ known time frame. A combination of hedonistic and imposed circumstances gave me little option but to use some more of the credit allowance I had; I still intended to pay all of it within the interest free duration, after all, that was the whole point of balance transfer cards.

Before I progress further, balance transfer schemes are designed to help move existing (often burdensome debts) from an old creditor to a new one that offers a much lower interest rate for a fixed period (including APRs). In the case of 0% balance transfers, the implications are that you will be paying no interest for your existing debt for a fixed period of time, often ranging anywhere between 3 and 28 months in my experience. They usually come with direct debit (DD) commitments to a fixed payment per month. This is great for many consumers because high interest rates often mean that we hold debts for longer, bearing the financial and emotional scars. It is therefore critical that when one does a balance transfer on any scheme, they try to pay off the debt within the promotional window unless you are an expert who has 'sourced' the system out and knows to move the debt between providers, for however long. It is worth remembering that such credit card based schemes will have '*interest bearing*' and '*interest free*' elements if new purchases are made on the credit cards and this is extremely important for the point of this article; payments should be allocated to ensure that interest bearing elements are reduced quicker than other debt components.

With the above in mind, I had managed to make some extra payments (non DD) to reduce my balance, consistently working to ensure that I reduced the likelihood of any interest burden on my finances. Unfortunately, in September 2018, I became worried about my increasing debt and tried to re-strategize plans to pay off my debt within the stipulated time. In December 2018 noticed that the interest values on my credit card seemed higher than the 21.94% rate that it was supposed to attract; it was higher. This meant that I was not meeting up with my repayment schedule and this worried me. Despite the extra payments, my statements still showed a greater debt balance that I had presumed; the maths just didn't add up. I contacted and engaged HSBC severally, and was told that the extra payments I had made, were used to clear off my transferred balance. I found this unusual and checked my credit card agreement. After several exchanges in January 2019, I received the email communication below from HSBC on January 3rd 2019:

"Dear Dr ……

I'm sorry you found it necessary to contact us about your Credit Card. Thanks for taking the time to speak with me today.

As discussed, I've credited **£299.78** *to your card to cover the* **interest you've paid to date***. I've made an internal adjustment to re-price your remaining balance, to ensure you have a further 20 months at 0% interest. There may be a small amount of trailing interest on your next statement, which I will automatically refund.*

If you do make any purchases going forward, please wait until we have issued you the bill with these transactions on it before you make a payment. If you pay before the statement has been produced, credits may be allocated to your balance transfer again."

… Innes (Customer Advocate).

Essentially, I had been charged interests on non-interest bearing elements of my debt. This is where the payment allocation fraud is explained.

Although I had incurred new debts, I had also made sufficient extra payments to clear those new debts or interest bearing elements of my overall credit card debt. This was in line with the HSBC Credit Card (2018) terms and conditions (clause 6.3), which proposes that

6.3. In each case, we will **apply the payment first to amounts on your account which we charge at the highest interest rate followed by amounts we charged at lower rates or which we do not charge interest on (for example any instalment plans)**. We always pay off interest and charges first.

This seems to be the standard allocation schedule for payments with most of the banks (per the available credit card agreements for Lloyds and Barclays). However, HSBC was allocating my extra payments to the non-interest bearing elements of my debts, ensuring that the interest bearing part of my loan remained high and earning interest. This explained my unreconcilable debt balance and it was until I challenged them 'over the phone' on this matter that they accepted fault and credited my account as stated above.

How does this affect consumers? Assuming you have just taken out a £2000.00, 10 months 0% balance transfer credit card and transferred a £1000 balance from another card, with the 3% fee paid upfront. The agreement required you to set up monthly DD of £100.00 for 10 months. After 2 months, you make some new interest bearing purchases of £300 on the card with a 20%APR. This should attract an interest of circa £35 over a 7 month period, meaning that you if in addition to the £100 DD pcm, you pay off £250 in the month of the purchase, you should have a balance of circa £751 in month 3 (700 (non-interest) plus 50 (interest bearing) plus 0.84 (interest)).

If in reality, your bank sets its system to allocate your payments such that the £250 goes to the balance transfer, dropping it from £800 in month 2 to £450 in month 3 (when your £100 DD is included). However, your interest bearing element now stands at £300 instead of £250, attracting an interest amount of £5. That is 5 times the applicable amount. If this debt was £1000 and stretched over 12 months, it would cost the consumer almost £200 a year, even if they had paid back 50% of that sum.

This practice is illegal on all grounds and there is no indication that HSBC has changed their systems to address this anomaly. Instead, it would seem that their preference is for shutting down accounts of customers who raise complaints. Innocent consumers have been and are being exploited by financial institutions, ploughing them with interest debts that should never have applied in the first instance. For some, these debts could have caused unending repayments, devasted family finances and mental health issues.

It is time for the financial conduct authority (FCA), debt help organisations and parliament to act by setting up a review panel to investigate this practice, enabling the potential to institute a compensation scheme for affected consumers where widespread wrong doing is established.

You ask, how far back does this apply? Honestly, I cannot tell and the impact will vary for different individuals depending on their balance transfers, extra payments, interest rates and spending habits. Nevertheless, I am certain that any HSBC 0% balance transfer credit card customers prior to 2019 will have been under the same system and as such likely victims. If you fall into this category, you should be contacting your lawyers or other forensic accounting experts to help you review your statements from perhaps 2014 to 2018 as this corresponds with periods of significant credit card repayments (Bank of England, 2019).

If like me, you no longer have access to your old statements, please exercise the subject access request (SAR or DSAR) option to request for this information from your credit card providers. You can also request old statements (up to 6 years) from your bank but these will potentially cost at a very significant cost.