

The complaint

Miss W complains that Vehicle Credit Limited (“Vehicle Credit”) irresponsibly granted her a loan she couldn’t afford to repay.

What happened

In May 2017, Miss W acquired a car and financed it through a hire purchase agreement with Vehicle Credit. Miss W was required to make 41 monthly repayments of £325.17, with a final optional payment of £349.98 if she wanted to own the car at the end of the agreement. The total repayable under the agreement was £13,681.95.

Miss W says that Vehicle Credit didn’t complete adequate affordability checks. She says if it had, it would have seen the agreement wasn’t affordable. Vehicle Credit didn’t agree. It said that it carried out a thorough assessment which included validating Miss W’s income and reviewing her credit file. It also explained that it had asked Miss W about her expenditure and even after adding some leeway for additional expenditure it thought the borrowing was affordable.

Our adjudicator recommended the complaint be upheld. She thought Vehicle Credit ought to have realised the agreement wasn’t affordable for Miss W.

Vehicle Credit didn’t agree and said the checks it completed were carried out in line with the information and proofs provided by Miss W.

The case has been passed to me for a final decision.

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.

Vehicle Credit will be familiar with all the rules, regulations, and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don’t consider it necessary to set all of this out in this decision.

The credit check Vehicle Credit completed showed that Miss W had two accounts that were in default at the time of her application and she’d also recently taken out a high cost loan. I think this ought to have indicated that Miss W was likely to be struggling financially. It therefore would have been proportionate for Vehicle Credit to have got a more thorough understanding of Miss W’s financial circumstances before lending.

I think it would have been proportionate for Vehicle Credit to have verified Miss W’s financial circumstances. One way Vehicle Credit could have done that was by requesting copies of her bank statements. I’ve reviewed three months of bank statements leading up to the lending decision.

The statements show that Miss W’s committed expenditure was about £1,656 when things like her rent, food, childcare, petrol, insurance, and credit commitments were taken into

account. Her income was about £1,967 and this demonstrates that Miss W didn't have enough disposable income to afford the £325.17 monthly payments due on this new finance agreement. I think it's likely proportionate checks would have revealed this to Vehicle Credit, it therefore didn't act fairly by approving the finance.

Putting things right

As I don't think Vehicle Credit ought to have approved the lending, it should therefore refund all the payments Miss W has made. However, Miss W did have use of the car for around 41 months, so I think it's fair she pays for that use. But I'm not persuaded that monthly repayments of over £325 are a fair reflection of what fair usage would be. This is because a proportion of those repayments went towards repaying interest.

There isn't an exact formula for working out what a fair usage should be. In deciding what's fair and reasonable I've thought about the amount of interest charged on the agreement, Miss W's likely overall usage of the car and what her costs to stay mobile would likely have been if she didn't have the car. In doing so, I think a fair amount Miss W should pay is £202 for each month she had use of the car. This means Vehicle Credit can only ask her to repay a total of £8,284 (the cash price of the car). Anything Miss W has paid in excess of that amount should be treated as an overpayment.

To settle Miss W's complaint Vehicle Credit Limited should do the following:

- Refund any payments Miss W has made in excess of £8,284, representing the original cash price of the car. It should add 8% simple interest per year* from the date of each overpayment to the date of settlement.
- Remove any adverse information recorded on Miss W's credit file regarding the agreement.
- If there any arrears after the settlement has been calculated, Vehicle Credit Limited should arrange an affordable repayment plan. And treat Miss W with forbearance and due consideration.

*HM Revenue & Customs requires Vehicle Credit to take off tax from this interest. Vehicle Credit must give Miss W a certificate showing how much tax it's taken off if she asks for one.

My final decision

I uphold this complaint and direct Vehicle Credit Limited to put things right in the manner set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 28 March 2022.

Phillip McMahon
Ombudsman