

The complaint

Mr W complains that Go Car Credit Limited irresponsibly granted him a hire purchase agreement he couldn't afford to repay.

What happened

In March 2018, Mr W acquired a used car financed by a hire purchase agreement from Go Car Credit. Mr W was required to make 36 monthly repayments of £158. The total repayable under the agreement was £5,705.

Mr W says that Go Car Credit didn't complete adequate affordability checks. He says if it had, it would have seen the agreement wasn't affordable. Go Car Credit didn't agree. It said that it carried out a credit worthiness assessment including a credit check and a review of Mr W's personal circumstances and undertook an income and expenditure assessment. Based on this it found Mr W had monthly disposable income of over £1,500.

The agreement's contractual term ended in April 2021 but there is still an outstanding balance owing to the arrears on Mr W's account. Due to issues with the car it has been scrapped.

Our adjudicator recommended the complaint be upheld. She thought Go Car Credit ought to have realised the agreement wasn't affordable to Mr W.

Go Car Credit didn't agree and said the information in Mr W's credit file wasn't such that it would have been reasonable for Go Car Credit to need to request additional information, specifically bank statements. It said the accounts with arrangement to pay should be considered in a similar way to accounts with historic defaults and that based on this its checks were proportionate.

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.

Before granting the finance, I think Go Car Credit gathered a reasonable amount of evidence and information from Mr W about his income as it was provided with copies of his recent payslips. It gathered information about Mr W's expenditure and also carried out a credit check. The credit check Go Car Credit completed showed that Mr W had four historic defaulted accounts as well as two accounts in arrears. I note the comments Go Car Credit has made about the accounts in arrears and arrangements to pay but I think that Mr W's credit check ought to have indicated that Mr W was likely to be struggling financially. It therefore would have been proportionate for Go Car Credit to have got a more thorough understanding of Mr W's financial circumstances before lending.

I think it would have been proportionate for Go Car Credit to have verified Mr W's financial circumstances. One way Go Car Credit could have done this was by requesting copies of their bank statements. I've reviewed three months of bank statements leading up to the lending decision.

Looking at Mr W's bank statements and his payslips, Mr W had an average income in the three months before the agreement of around £2,250 – with an income of £1,724 in February 2018. So while I note Go Car Credit found Mr W's average monthly income to be around £2,400 based on his pay to date, I think the variability of his income needed to be considered.

Mr W's bank statements show that in the months leading up to the agreement he was making payments to several debt management companies and had other outstanding high cost loans. His average committed expenditure was around £2,100 (including rent, utilities, insurance, credit commitments and other living expenses). This meant he had very limited disposable income. As well as making payments each month to several debt management companies and other high cost loan providers, Mr W had returned direct debits, which suggests he didn't have sufficient income to cover all his commitments and may have been using other forms of lending to supplement his income.

Overall, I think that reasonable and proportionate checks would have shown that Mr W didn't have sufficient disposable income to afford the additional borrowing and that he was experiencing issues managing his finances. I therefore don't think Go Car Credit made a fair lending decision.

Putting things right

As I don't think Go Car Credit ought to have approved the lending, I don't think it's fair for it to be able to charge any interest or charges under the agreement.

The cash price of the car was £3,254. I understand from the information provided that Mr W has paid more than this to Go Car Credit and that the car has been scrapped. Mr W should therefore only have to pay the original cash price of the car, being £3,254. Anything Mr W has paid in excess of that amount should be refunded as an overpayment.

So, to settle Mr W's complaint Go Car Credit should do the following:

- Refund any payments Mr W has made in excess of £3,254, representing the original cash price of the car. Go Car Credit should add 8% simple interest per year* from the date of each overpayment to the date of settlement.
- Remove any adverse information recorded on Mr W's credit file relating to the agreement.

*HM Revenue & Customs requires Go Car Credit to take off tax from this interest. It must give Mr W a certificate showing how much tax it's taken off if he asks for one.

My final decision

I uphold this complaint and direct Go Car 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 Mr W to accept or reject my decision before 23 February 2022.

Jane Archer
Ombudsman