

The complaint

Mr T complains that FCA Automotive Services UK Ltd (“FCA”) irresponsibly granted him a loan he couldn’t afford to repay.

What happened

In December 2018, Mr T took receipt of a car that he financed through a hire purchase agreement with FCA. Mr T was required to make 59 monthly repayments of £255.40, with a final payment of £654.40 which included a payment to secure ownership of the vehicle if he wanted to at the end of the agreement. The total repayable under the agreement was £15,723.

Mr T says that FCA didn’t complete adequate affordability checks. He says if it had, it would have seen the agreement wasn’t affordable. FCA didn’t agree. It said that it carried out a thorough assessment. It had reviewed Mr T’s bank statements for the period immediately before the approval date and had looked at his credit file. It noted that his income was about £1,458 per month but had reduced to about £1,049 in the month prior to the application. FCA thought, even with this reduced income the loan was still affordable for Mr T.

Our adjudicator recommended the complaint be upheld. She thought FCA ought to have realised the agreement wasn’t affordable for Mr T.

FCA didn’t agree and said the average salary was actually £1,155 per month and that Mr T’s expenditure would have reduced by £101 per month as he was paying off a credit agreement. They said, together these issues would increase his monthly disposable income by £207 and that the agreement was therefore affordable.

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.

FCA 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.

Before granting the finance, I think FCA gathered a reasonable amount of evidence and information about Mr T’s ability to repay. I say this because it established his income and expenditure through bank statements and reviewed his credit file. However, just because I think it carried out proportionate checks, it doesn’t automatically mean it made a fair lending decision. So, I’ve thought about what the evidence and information showed.

FCA had copies of Mr T’s bank statements. The average monthly income was £1,155 and Mr T had existing financial commitments of about £573 once payments for direct debits, rent, utilities, broadband/entertainment and insurance were taken into account. The loan he had

for £101 per month didn't need to be factored in as it was being settled. That left a monthly disposable income of about £582 from which food, petrol, car tax and maintenance, car insurance (expensive given Mr T's young age), and the new loan of £255 per month would need to be financed. I think this gave a clear indication that Mr T wasn't in a position to afford the repayments towards the new agreement without experiencing difficulty or having to borrow further. FCA therefore didn't make a fair lending decision.

I understand that Mr T was able to make the committed repayments for some months but that, in itself, doesn't mean the loan was affordable sustainably and without Mr T experiencing difficulty or having to borrow further.

Putting things right

As I don't think FCA 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. Mr T should therefore only have to pay the original cash price of the car, being £10,389. Anything Mr T has paid in excess of that amount should be refunded as an overpayment.

To settle Mr T's complaint FCA should do the following:

- End the agreement with nothing more to pay and transfer ownership of the car to Mr T.
- Refund any payments Mr T has made in excess of £10,389, 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 Mr T's credit file regarding the agreement.

*HM Revenue & Customs requires FCA to take off tax from this interest. FCA must give Mr T a certificate showing how much tax it's taken off if Mr T asks for one.

My final decision

I uphold this complaint and direct FCA Automotive Services UK Ltd to put things right in the manner set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 12 April 2022.

Phillip McMahon
Ombudsman