

The complaint

Mr P complains that First Response Finance Ltd irresponsibly granted him a hire purchase agreement he couldn't afford to repay.

What happened

In June 2016, Mr P acquired a used car financed by a hire purchase agreement from First Response. Mr P was required to make 24 monthly repayments of £261. The total repayable under the agreement was £6,264.

Mr P says that First Response didn't complete adequate affordability checks. He says if it had, it would have seen the agreement wasn't affordable. First Response didn't agree. It said that it carried out a thorough assessment which included a credit check and affordability assessment. It says it requested three months bank statements and based on its checks the agreement was affordable.

Our adjudicator didn't recommend the complaint be upheld. He thought First Response didn't act unfairly or unreasonably by approving the finance agreement.

Mr P didn't agree and said that his only income was £500 a month along with benefit payments.

My provisional conclusions

I issued a provisional decision on this complaint. I concluded in summary:

- Before granting the finance, First Response gathered a reasonable amount of evidence and information from Mr P about his ability to repay. It completed a credit check and while this showed some adverse information this was questioned and factored into its assessment. It also reviewed three months of Mr P's bank statements and assessed his income and expenditure.
- Although I thought First Response carried out proportionate checks, that didn't automatically mean it made a fair lending decision.
- The bank statements for the months prior to the application were joint account statements and I considered the total income and expenses. First Response had income recorded as around £2,400. I agreed with the benefit income totalling around £1,500 a month but couldn't find evidence in Mr P's bank statements of him earning £860 a month and instead saw his work schedule showed he earned £500. This gave a total monthly income of just over £2,000.
- First Response gathered about Mr P's expenses and used statistical databases to assess certain expenses. However, as the bank statements were provided I thought it reasonable the information in these was relied on. These showed that Mr P had higher household expenses than were included. Taking into account his regular living expenses such as food, bills, utilities and credit commitments his expenses totalled

around £2,000 suggesting that all of his monthly income was being used to meet his outgoings.

- The overall situation on the bank statements showed Mr P's account in continued overdraft and the situation getting worse over the months leading up to the agreement.
- As the bank statements suggested Mr P wasn't left with any disposable income and his financial situation seemed to be deteriorating, I didn't think that this agreement should have been considered affordable.

Mr P and First Response both accepted my provisional 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.

First Response 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. Information about our approach to these complaints is set out on our website.

As I set out in my provisional decision, I think the checks carried out by First Response were proportionate. However, I think the checks showed that Mr P didn't have sufficient disposable income to make the repayments due under the agreement. Therefore, I don't think First Response should have provided this lending.

Both parties accepted my provisional decision and my conclusion remains that I uphold this complaint.

Putting things right

As I don't think First Response Finance Ltd 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 P should therefore only have to pay the original cash price of the car, being £4,300. Anything Mr P has paid in excess of that amount should be refunded as an overpayment.

To settle Mr P's complaint First Response should do the following:

- Refund any payments Mr P has made in excess of £4,300, 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 P's credit file regarding the agreement.

*HM Revenue & Customs requires First Response to take off tax from this interest. First Response must give Mr P a certificate showing how much tax it's taken off if Mr P asks for one.

My final decision

I uphold this complaint and direct First Response Finance 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 P to accept or reject my decision before 18 March 2022.

Jane Archer
Ombudsman