

The complaint

Mr M complains that Blue Motor Finance Ltd irresponsibly granted him a hire purchase agreement he couldn't afford to repay.

What happened

In March 2017, Mr M acquired a used car financed by a hire purchase agreement from Blue Motor Finance. Mr M made an initial payment of £500 and was required to make 60 monthly repayments of £542 followed by a final monthly payment of £692. The total repayable under the agreement was £33,701.

Mr M says that Blue Motor Finance didn't complete adequate affordability checks. He says if it had, it would have seen the agreement wasn't affordable. Blue Motor Finance didn't agree. It said that Mr M provided it with his employment and income details and a validation call took place. It said Mr M was given the pre-contract information which he signed saying he could afford the payments.

Our adjudicator recommended the complaint be upheld. He thought Blue Motor Finance ought to have realised the agreement wasn't affordable to Mr M.

Blue Motor Finance didn't agree and said the bank statements showed Mr M was in credit before his salary was paid and that he was making discretionary spending. It didn't accept that the bank statements showed the agreement to not be 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.

Blue Motor Finance 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.

Blue Motor Finance has said it asked Mr M about this employment and income and said a validation call took place. I haven't further details or evidence that Blue Motor Finance verified Mr M's income before approving the finance. Given the overall size of the borrowing, the monthly repayments and the term of the agreement, I think it would have been proportionate for it to have done so.

I note a call took place in March 2017, but I haven't received a recording of this and I have nothing to show that Mr M was asked about his regular expenditure during the application. Without verifying Mr M's income and knowing what his regular committed expenditure was Blue Motor Finance wouldn't have got a reasonable understanding of whether the agreement was affordable or not. It therefore didn't complete proportionate checks.

I think it would have been proportionate for Blue Motor Finance to have verified Mr M's income in some way and to have found out more about Mr M's committed expenditure, such as his living costs. I can't be sure exactly what Blue Motor Finance would have found out if it had asked. In the absence of anything else, I think it would be reasonable to place significant weight on the information contained in Mr M's bank statements as to what would most likely have been disclosed.

I've reviewed Mr M's bank statements for the months leading up to the lending decision. These show that Mr M was earning a monthly income of around £2,700. He was paying a total of around £2,200 towards his committed living expenditure including rent, bills and food. I note the comments Blue Motor Finance has made about Mr M making discretionary spending choices and I can see these on the bank statements. However, the statements also show that deducting his committed expenses from his monthly income would leave disposable income of around £500. While this may have been used for discretionary spending, this still wasn't enough to cover the monthly repayments under the agreement. I also note that some of the payments were to debt management companies which could suggest further issues regarding Mr M's ability to manage his money. I think this demonstrates that Mr M didn't have enough disposable income to afford the additional borrowing. Blue Motor Finance therefore didn't act fairly by approving the finance.

Putting things right

As I don't think Blue Motor Finance 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 M should therefore only have to pay the original cash price of the car, being £20,500 (of which he paid a £500 deposit). Anything Mr M has paid in excess of that amount should be refunded as an overpayment.

To settle Mr Ms' complaint Blue Motor Finance should do the following:

- Refund any payments Mr M has made in excess of £20,500, 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 M's credit file regarding the agreement.

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

My final decision

I uphold this complaint and direct Blue Motor 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 M to accept or reject my decision before 8 April 2022.

Jane Archer
Ombudsman