

The complaint

Miss O complains that Volkswagen Financial Services (UK) Limited irresponsibly granted her a hire purchase agreement she couldn't afford to repay.

What happened

In February 2020, Miss O acquired a used car financed by a hire purchase agreement from VWFS. Miss O was required to make 48 monthly repayments of around £231 with a final optional payment of £5,805 if she wanted to own the car at the end of the agreement. The total repayable under the agreement was around £16,922.

Miss O says that VWFS didn't complete adequate affordability checks. She says if it had, it would have seen the agreement wasn't affordable. VWFS didn't agree. It said that it carried out a thorough assessment which included credit checks and the completion of a financial suitability questionnaire in which Miss O confirmed the agreement was affordable.

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

Miss O didn't agree. She said that VWFS relied on out of date information from her previous application and that her income had reduced significantly since then. She said that she was on maternity leave and her income was reducing towards the statutory maternity leave payment and that her return to work wouldn't result in her previous earnings due to the need to pay for childcare. She says that the agreement placed an unfair burden on her and had questions been asked about her circumstances, VWFS would have realised the agreement wasn't 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.

VWFS 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, VWFS carried out a credit check. This didn't raise concerns. Miss O had limited credit commitments, a mortgage, small loan and utility contracts, and she was managing these without any issues. She had two credit cards but didn't have an outstanding balance on these.

VWFS had provided a previous finance agreement to Miss O costing £219 a month. Miss O had maintained the payments without any issues and this agreement was replaced with this new agreement which required monthly repayments of around £231. While it is reasonable that VWFS will have taken into account the previous agreement and how Miss O had

managed this, I think it was required to verify her income before providing the new agreement to ensure that the new, slightly higher, repayments were sustainably affordable for her.

I cannot say what Miss O would have disclosed had she been asked about her income. I don't think VWFS needed to request bank statements, but in the absence of anything else, I've placed significant weight on the information contained in Miss O's statements as an indication of what would most likely have been disclosed.

I've reviewed two months of bank statements leading up to the lending decision and considered the information in the bank statement for the month of the lending. Miss O's average income for the two months prior to the agreement was around £1,600. Miss O's income then reduced to £1,068 in February 2020 but this was received after the agreement had been put in place. While I can't say what Miss O would have said if asked about her income, I think it reasonable to accept that had further questions been asked VWFS would have identified the above average income figure and that Miss O may have explained that her income was reducing.

In this case, as Miss O's credit file didn't raise any concerns, and included her main committed living expenses, such as her mortgage and utility accounts, I find it reasonable that VWFS relied on the information received through its checks when assessing Miss O's expenditure. This showed Miss O's credit commitments to be around £600 a month. While I appreciate Miss O had other expenses she was paying I think based on her management of her previous agreement and the results of her credit check, it was reasonable that VWFS relied on this information and didn't carry out further checks.

Taking these figures into account, it appears to show the agreement was affordable to Miss O. So, while I note the comments that Miss O has made, I find it more likely than not that had further checks taken place VWFS would have still found the agreement to be affordable. For this reason, I'm not persuaded that VWFS acted unfairly in approving the finance.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss O to accept or reject my decision before 1 November 2022.

Jane Archer
Ombudsman