

## **The complaint**

Miss M complains that PSA Finance UK Limited (“PSA”) irresponsibly granted her a loan she couldn’t afford to repay.

## **What happened**

In March 2019 Miss M acquired a car and financed the deal through a conditional sale agreement with PSA. She was required to make 60 monthly payments of £158.90. The total repayable under the agreement was £10,235 towards which Miss M also paid a deposit of £700.

Miss M says that PSA didn’t complete adequate affordability checks. She says if it had, it would have seen the agreement wasn’t affordable. PSA didn’t agree. It said that it carried out a thorough assessment which included a review of Miss M’s credit file. They didn’t find Miss M was behind with payments and didn’t think there were any burdensome credit commitments on her file. They say Miss M told them she was in regular employment and they believed the loan was therefore affordable for her.

Our investigator recommended the complaint was upheld. He thought PSA ought to have realised the agreement wasn’t affordable for Miss M.

PSA didn’t agree and said there was no evidence Miss M was struggling to meet her repayments until after the agreement had started; when she had a car accident and told them she was no longer able to work. They explained Miss M had told them she was working as a carer at the time of the application and as she was living with parents and the repayments on this agreement were relatively modest, as were her credit commitments, they didn’t think it necessary to conduct more detailed checks.

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.

PSA 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.

Whilst it’s fair to say Miss M did have a responsibility to provide accurate information, PSA were obliged to perform reasonable and proportionate checks to establish whether the agreement was sustainably affordable for Miss M. I don’t think they did that.

Miss M told them she was in full time employment but, given the size of the loan and the likely modest income of someone working as a carer, I think PSA should have verified that income. I haven’t been provided with evidence that was the case and I don’t accept it was

reasonable to assume that because Miss M was living with her parents and had modest credit commitments that was sufficient to demonstrate the loan was sustainably affordable.

I think it would have been proportionate for PSA to have verified Miss M's income in some way. Miss M's bank statements don't show any regular sources of income and I think PSA would likely have found this out too if it had completed proportionate checks. I don't think on that basis that Miss M could reasonably have been expected to sustainably afford the repayments on this agreement and I don't therefore think PSA acted fairly when approving the finance.

I think Miss M has also experienced some distress and inconvenience as a result of PSA's actions. She's explained to us that it's impacted on her mental health and caused her quite a bit of anxiety, and that it may well have impacted on her credit file and ability to obtain credit elsewhere. In the circumstances, I'm persuaded that PSA should pay her £250 to compensate her for the distress and inconvenience she's been caused.

### **Putting things right**

As I don't think PSA Finance ought to have approved the lending, I don't think it's fair for them to be able to charge any interest or charges under the agreement. But Miss M did have use of the goods for around 15 months, so, I think it's fair she pays for that use.

But I'm not persuaded the monthly payments of £158.90 a month are a fair reflection of what fair usage would be. This is because a proportion of those repayments went towards interest. There isn't an exact formula for working out what a fair monthly repayment would be to reflect Miss M's usage. But in deciding what's fair and reasonable, I've thought about the amount of interest charged on the agreement, Miss M's overall use of the car and what her costs to stay mobile would likely have been if she didn't have the car. In doing so, I think a fair amount Miss M should pay is £139 for each month she had use of the car. This means that PSA Finance can only ask her to repay a total of £2,085.

To settle Miss M's complaint, PSA Finance should do the following:

- End the agreement with nothing further to pay unless, as seems the case, this has already been done.
- Refund all the payments Miss M has made (including the deposit), less £2,085 for fair usage.
  - If Miss M has paid more than the fair usage figure, PSA should refund any overpayments, adding 8% simple interest per year\* from the date of each overpayment to the date of settlement. Or;
  - If Miss M has paid less than the fair usage figure, PSA should arrange an affordable and sustainable repayment plan for the outstanding balance.
- Once PSA has received the fair usage amount, it should remove any adverse information recorded on Miss M's credit file regarding the agreement.
- Pay Miss M £250 in compensation for the distress and inconvenience caused.

\*HM Revenue and Customs requires PSA Finance to take off tax from this interest. PSA Finance must give Miss M a certificate showing how much tax they've taken off if Miss M asks for one.

### **My final decision**

I uphold this complaint and direct PSA Finance UK Limited to put things right in the manner set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 16 January 2023.

Phillip McMahon  
**Ombudsman**