

The complaint

Mrs S complains that Mitsubishi HC Capital UK Plc, trading as Novuna Personal Finance, irresponsibly lent to her.

What happened

Mrs S took out a 60-month fixed sum loan for £12,500 from Novuna on 4 February 2018. The monthly repayments were £226.55 and the total repayable was £13,593. Mrs S repaid the loan early in June 2018.

Mrs S says she was given the loan without any affordability checks and it led to a spiral of debt. Novuna halved her mortgage cost but she was separated at this time and paid it all. She was not asked for any confirmation of her income or outgoings. She wants all interest she paid refunded.

Our adjudicator did not uphold Mrs S's complaint. She said the checks Novuna carried out did not show any signs that the loan might not be sustainably affordable, and nor did the information Mrs S had subsequently provided to this service.

Unhappy with this assessment Mrs S asked for an ombudsman's review. She said she had already had a similar complaint upheld so why not this one. Her circumstances were the same. Also the child maintenance payments she was receiving should not have been taken into account as they could have stopped at any time.

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.

Novuna 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.

I need to decide if Novuna carried out fair and proportionate checks before lending; if not what would better checks most likely have shown; and if it did, was the lending decision it then made fair?

Novuna asked Mrs S for her annual income, employment status and residential status when she applied. It says it verified her income via the credit reference agencies, concluding her monthly net income would be £1,421.19. Based on her marital status it assumed she paid half of the monthly mortgage of £388. It says it carried out a credit check that showed she had £4,200 of debt and monthly credit commitments of £123.03. It concluded after these commitments and the repayments for this new loan she would be left with £880.11 to cover her other expenses. It felt this to be reasonable for someone in her circumstances and so gave the loan.

Mrs S argues she was paying all the mortgage at this time, not half, and I can see this to be the case from her bank statements. But I don't think knowing this ought to have changed Novuna's decision as she also had income in excess of the other 50% of the mortgage that Novuna had not taken into account. This came from benefits, tax credits and maintenance payments. Mrs S says the latter should not be included, but I think it's fair they are. Mrs S's bank statements show they were regular fixed payments – and whilst I accept this could change, so can other income sources, say due to events like redundancy, so I don't see that as a reason not to consider them.

Novuna says it can't share the full results of its credit check as its systems translate the raw data into a credit score. It has told us its best applicants tend to score over 900 and Mrs S's application score was 909. However, it has also said the score measures the probability of default. As it knows it needs to check not just the likelihood of it being repaid, but also the impact of the repayments on Mrs S. From what it has said I'm not wholly satisfied its checks did this. But I won't comment further on this as I have looked at Mrs S's full credit file and don't think even if Novuna carried out better checks it ought to have made a different lending decision. Mrs S was not over indebted, she had no public records and seems to have been up-to-date on all her active revolving accounts, with no adverse information on her file. She had no other loans at the time.

It follows I don't think Novuna was wrong to lend to Mrs S.

Mrs S has asked about another irresponsible lending complaint she made that we upheld. I can only comment here on the merits of this complaint but to aid her understanding I would say that the checks we think a lender should do and the decisions it ought to make can vary for a number of reasons, such as the value and term of the loan as well as what the initial checks carried out show.

My final decision

I am not upholding Mrs S's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 26 December 2022.

Rebecca Connelley
Ombudsman