

The complaint

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

What happened

In May 2017, Mr H acquired a used car financed by a hire purchase agreement from Blue Motor Finance. Mr H was required to make 60 monthly repayments of around £303 with a final payment of around £453. The total repayable under the agreement was around £18,665.

Mr H 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 it carried out a thorough assessment which included a creditworthiness check using credit reference agency information. It said this showed defaults on Mr H's credit file, but these were reducing and that his other credit commitments were being managed well. It said that based on Mr H's stated income the repayments weren't considered excessive and based on his employment details it considered these sustainable.

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

Blue Motor Finance didn't agree. It said that Mr H had made paid his instalments and the agreement was closed. It said Mr H's affordability was correctly assessed and his credit file showed no concerns.

Mr H said that he had to take out further credit to maintain his repayments and this resulted in him going into a debt management plan.

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

The credit check Blue Motor Finance completed showed that Mr H had previously defaulted on accounts and had several credit cards with balances nearing their limits as well as other credit commitments outstanding at the time. I think this ought to have indicated that Mr H was likely to be struggling financially. It therefore would have been proportionate for Blue Motor Finance to have got a more thorough understanding of Mr H's financial circumstances before lending.

Blue Motor Finance gathered details about Mr H's employment and his monthly income. This was recorded as £1,354. I cannot see evidence that Mr H's income was verified and given the overall size of the borrowing, the monthly repayments and the term of the agreement, and noting Mr H's previous credit history, I think it would have been proportionate for Blue Motor Finance to have done so. I also think that Blue Motor Finance should have asked Mr H about his expenditure. Although it did complete a credit check, this won't have indicated what Mr H's regular living expenses were. Without knowing what Mr H's 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've reviewed three months of bank statements leading up to the lending decision. I think these give a reasonable indication of what Blue Motor Finance would have found out had it verified Mr H's income and asked about his expenses. These show that Mr H's monthly income was below the amount recorded, being just over £1,100. His expenses for items such as rent and bills, other credit commitments, food and transport averaged at around £1,200. This demonstrates that Mr H 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 H should therefore only have to pay the original cash price of the car, being £9,974. Anything Mr H has paid in excess of that amount should be refunded as an overpayment.

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

- Refund any payments Mr H has made in excess of £9,974 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 H'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 H a certificate showing how much tax it's taken off if Mr H 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 H to accept or reject my decision before 28 December 2022.

Jane Archer
Ombudsman