

The complaint

Mr I complained that Mitsubishi HC Capital UK Plc, trading as Novuna Personal Finance (“Mitsubishi”) irresponsibly granted him a personal loan that he couldn’t afford to repay.

What happened

Mr I took out a loan of £15,000 in July 2021, over a term of 60 months. The monthly payment was £432.05. The interest on the loan amounted to £10,923, making the total amount repayable £25,923.

Mr I said that at the time he took out the loan, he had five credit cards with balances very near the credit limits, and that he was missing payments. He also said that the loan process was rushed and that he didn’t fully understand the terms of the loan, especially the total amount payable.

Since taking out the loan, the account has regularly been in arrears, although Mr I has made payments at various points, some of which temporarily brought the account up to date. Mr I complained that Mitsubishi failed to conduct reasonable and proportionate checks before granting the loan. He thought that Mitsubishi ought to refund the interest and charges on the loan. Mitsubishi said that it had carried out appropriate checks, and told Mr I that it did not uphold the complaint.

Mr I then brought his complaint to this service. Our investigator looked into it but didn’t think it should be upheld. Mr I didn’t agree, and asked for it to be reviewed by an ombudsman. I should also say that, at this point, Mr I provided new information to the effect that, when he took out the loan, he was getting into debt after losing money on crypto investments and had formed a gambling addiction.

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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website, and I’ve taken this into account here.

I’ve decided not to uphold Mr I’s complaint. I’ll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn’t a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering matters such as the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer’s circumstances. So I’ve considered whether Mitsubishi completed reasonable and proportionate checks to satisfy itself that Mr I would be able to make the repayments on the loan account in a sustainable way.

As I noted above, Mr I said that, at the time of the application, Mr I had five credit cards that had balances very near the credit limit, and that he was missing payments. He sent in a copy of his credit record as well as his account of the sequence of events.

Mitsubishi sent in details of the credit checks it carried out, and said that Mr I's application score exceeded its minimum lending criteria. It told us that it uses a third-party affordability product from a credit reference agency, and this provided it with trends over time in relation to Mr I's income and general indebtedness and assisted it with understanding how able Mr I would be to afford and service any new credit. It said there were no indications that Mr I would struggle to service the new loan agreement.

Mitsubishi further said that Mr I stated that his gross annual income was £100,000 at the time of the application, and that he was married with no dependents and a homeowner. Mr I agreed that this was the figure he'd stated. Mitsubishi told us it validated this income figure using credit reference agency data, and that based on this, Mitsubishi estimated a net monthly income of just over £5,500.00.

Mitsubishi said that Mr I's credit record showed a joint mortgage, and that it attributed half of the monthly payment to Mr I. This figure was £1,054.00. Mr I's credit record further showed existing credit commitments with balances totalling £13,900, and monthly payments of around £436.75. Taking these commitments together with the monthly payment for the new loan, Mitsubishi said that this would have left just over £3,600 for other monthly expenses, and based on national averages, this amount is generally sufficient to meet the other expenses which are typical of someone with similar circumstances to Mr I. Mitsubishi further said there were no recent credit searches registered, and no defaults. It said that on the basis of the figures it had, and as there were no indications of financial distress from his credit file, there were no concerns about lending Mr I an additional £15,000.

Mitsubishi sent in a copy of its computer record of the lending data, (which shows Mr I's income as stated above) and a list of the items covered, including mortgage and other credit commitments, the status of payments on those commitments, application searches, insolvency and fraud markers, income verification data and other information relating to indebtedness, probability of default, and affordability likelihood. It also provided the notes of its calls and emails with Mr I. The format of the computer record was a detailed spreadsheet rather than a credit file, but Mitsubishi highlighted the key entries. And where the items mentioned are also part of the credit file that Mr I sent in (such as commitments and payment status) I can see nothing inconsistent.

Mr I provided a copy of his credit file from one of the major credit reference agencies. He did not send in copies of bank statements from the time of the loan application, but I'm satisfied I have enough evidence on which to base my decision.

I've considered what Mr I said about his credit card balances, and I accept that these were close to their limits. Mr I's credit file shows three missed payments in the months prior to the loan application (although these were not successive, and none was outstanding at the time of the loan application). Over time it looks as though Mr I had regularly spent up to the credit limits, and on occasion had repaid the monthly balances in full, although other payments were much lower. I also note that the credit limits were not particularly high relative to Mr I's income – the total of the credit limits was less than 15% of Mr I's gross annual income.

Mr I had no other loans, and other commitments (the mortgage, his current account, and utility accounts) were all in order, with no overdraft and no missed payments. So while Mr I was fully utilising the credit on his cards, I can't see a clear indication of increasing indebtedness over time. As far as I can see from the credit report, the total balances were consistent with the amount reflected in the credit checks that Mitsubishi carried out, so

there's nothing to suggest that that borrowing wasn't considered, along with the repayments that would've been required.

Having looked carefully at all of the evidence, I think Mitsubishi's checks were reasonable and proportionate in this case. The credit commitments that I noted earlier were reflected in the checks, both in terms of the amount outstanding and the monthly repayments required, which Mitsubishi said it took from credit reference agency records. Mitsubishi also took account of the mortgage payments that Mr I had stated, as well as considering typical figures for outgoings. These checks showed a figure for disposable income well in excess of the repayments on the loan it was considering. I don't consider there was anything to suggest difficulties with repaying the existing credit commitments or a potential difficulty in maintaining payments on the new loan.

I've also thought about Mr I's later comments about getting into debt after losing money on crypto investments and forming a gambling addiction. This has clearly been very difficult for Mr I. But I have to consider whether Mitsubishi ought reasonably to have identified signs of this, which could have affected its lending decision.

Mr I said he hadn't made Mitsubishi aware of this (and I can see that the contact notes - the record of calls and emails with Mr I - that Mitsubishi sent in contain no mention of it). And indeed the loan application seems to have been online so there was no discussion of Mr I's circumstances - Mitsubishi's lending decision was based entirely on the data it received. As I noted above, I can't see anything to suggest difficulties with repaying the existing or new credit, and as I also explained, I think Mitsubishi's checks were reasonable and proportionate, so I don't think it was unreasonable for Mitsubishi to have concluded the loan online. I don't think Mitsubishi could reasonably have identified that Mr I was experiencing gambling issues from the information available to it.

Finally, I've looked at Mr I's comments about the terms of the loan being unclear. Mitsubishi sent in a copy of the loan agreement, and I can see that the section "description of loan" states the total charge for credit as £10,923.00 and the total amount payable as £25,923.00, so I think the cost was clear enough. I can see from the contact notes with Mitsubishi that Mr I queried the interest being added to the loan up front rather than as a monthly charge, but it was explained that this did not mean that he was paying more interest this way, and that should he overpay, or fully repay the loan early, there would be a rebate of interest. This is in line with the relevant regulations, and I don't think Mitsubishi has treated Mr I unfairly in this respect.

I appreciate that Mr I feels strongly about this, but taking all this into account, I don't think Mitsubishi acted unfairly when approving the loan application in 2021, so I don't think Mr I has lost out.

My final decision

For the reasons I've explained, I've decided not to uphold Mr I's complaint

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr I to accept or reject my decision before 11 May 2023.

Jan Ferrari
Ombudsman