

The complaint

Mr A complains Mitsubishi HC Capital UK Plc trading as Novuna Personal Finance irresponsibly gave him two fixed sum loan agreements he couldn't afford.

What happened

In October 2018, Mr A was given a cash loan of £25,000. He was required to pay 79 monthly repayments of £453.56, with a total repayable of £35,831.24.

In October 2020, Mr A took out a further fixed sum loan agreement with Mitsubishi, but this time it was a loan to finance the purchase of furniture. The cash price of the furniture was £2,016. The agreement was interest free and Mr A was required to repay 48 monthly repayments of £42.

Mr A complained to Mitsubishi in June 2022 to say that the loans had been unaffordable for him and that Mitsubishi would have seen this too if it had completed appropriate checks before lending to him.

Mitsubishi said it had completed adequate affordability checks before approving both loans. It said with loan one, Mr A had declared an annual income of £150,000 and the credit checks it completed demonstrated that this income was likely to be accurate and that he would have sufficient disposable income to be able to afford the repayments. In relation to loan two, it said that Mr A's annual income had dropped to £50,000, however, his other external credit commitments had also significantly reduced. It said it considered the relatively low repayment of £42 per month to be affordable based on the information it gathered about his financial circumstances.

Our adjudicator didn't recommend the complaint be upheld. He considered that Mitsubishi had complete proportionate affordability checks in relation to loan one and that from the information and evidence it had gathered he didn't think it had made an unfair lending decision. In relation to loan two, he considered it might have been reasonable for Mitsubishi to have done more, however, he hadn't seen anything to indicate that further checks would have revealed any affordability concerns.

Mr A didn't agree. In summary, he said that he was gambling heavily at the time of the first loan and had Mitsubishi seen this, they would not have lent to him. He said that other complaints about loans taken out shortly before this one had been upheld based on his financial circumstances and that he had to extend borrowing on his mortgage in order to afford the repayments.

The complaint 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.

In doing so, I've considered the rules and guidance within the Consumer Credit Sourcebook (known as CONC) within the regulator's handbook, as well as the law, other relevant rules and regulations and where appropriate, what I consider to have been good industry practice at the relevant time.

Prior to granting Mr A with credit Mitsubishi were required to ensure that the lending would be affordable and sustainable. There isn't a set list of checks it had to complete to assess affordability, instead it needed to ensure any checks it did complete were proportionate in the circumstances. In deciding what were proportionate checks, it needed to take account of things such as (but not limited to): the amount of the borrowing, the cost of credit, the type of credit, the size of the regular repayments, the term and the consumer's circumstances.

Loan one

Mr A declared on his application form that he earned an annual salary of £150,000. Mitsubishi calculated this to be around £7,700 per month and it says it used a tool provided by a credit reference agency to 'verify' this income. It says this check confirmed that what Mr A had declared about his income was likely to be true.

Mitsubishi also completed a credit check. Although it hasn't been able to provide us with a copy of that check it says it showed that Mr A had unsecured credit commitments of around £65,000 with monthly repayments of around £1,800 and a mortgage with monthly repayments of around £1,350. It said there was no adverse information recorded or signs of financial difficulty. Having reviewed a copy of Mr A's credit file that he's supplied to us, I've seen no reason to disbelieve what Mitsubishi has said about what its checks revealed.

Mitsubishi said this demonstrated that Mr A would have in excess of £4,000 each month for essential household expenditure which it considered more than adequate to cover those, the new loan repayment and leave enough left over for emergency and unexpected costs. Taking into account what Mitsubishi had found out about Mr A's specific financial circumstances and the relevant factors relating to the loan, I'm satisfied that the checks Mitsubishi completed were reasonable and proportionate. I haven't seen anything within the checks or evidence it gathered that makes me think it made an unfair lending decision.

I note Mr A says he was gambling heavily at the time and this is why he couldn't afford the repayments. However, I can't fairly say that Mitsubishi knew about this or would have reasonably found out about it either, as I don't think it needed to complete further checks. And even if further checks had been proportionate, I don't think those would ever have involved Mitsubishi needing to manually review his bank statements, given his level of income, his credit history and available disposable income.

Loan two

When Mr A applied for loan two, he had declared a significant change in his annual income, down to £50,000. However, Mitsubishi's credit checks also revealed that his unsecured credit commitments had also significantly reduced, down to £11,500 with monthly repayments of around £190. Mr A had also settled loan one (above) early and in full around eight months earlier. However, Mr A's mortgage commitment had increased to around £2,650 per month. This appears to be because he took out an additional mortgage to reduce his unsecured debts.

Mitsubishi says that when calculating the affordability of loan two it assumed that Mr A was only responsible for half the mortgage as it was in joint names. Based on the information Mr A has provided it appears the second mortgage was joint, but it's unclear whether the first charge mortgage was. So, I can't be certain that what Mitsubishi concluded was reasonable

and therefore I think it may have been proportionate for it to have done more before agreeing to lend. I think in the circumstances it ought to have done more to verify Mr A's income and asked him about his committed expenditure.

We've asked Mr A to provide us with details of his income and expenditure from around this time. However, the bank statements he's provided us don't shed much light on the key information about his income and outgoings as those statements from that particular current account don't show what he earned or what he spent. Therefore, I haven't seen anything to persuade me that more thorough affordability checks for loan two ought to have caused Mitsubishi to be concerned about the affordability of the loan. I'm therefore not satisfied it made an unfair lending decision.

Mr A says that other loans he's complained about were upheld. However, each case is considered on its own merits and the circumstances of each lending decision are unique. As I've said earlier in the decision, there isn't a set list of checks that need to be completed, there is no one-size-fits-all approach. For the reasons, I've set out in this decision, I'm satisfied that for loan one proportionate checks were completed and it wasn't unfair for Mitsubishi to lend based on the information it gathered. For loan two, I think more should have been done, but I've seen insufficient evidence to persuade me that further checks ought to have led to a different lending decision.

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 Mr A to accept or reject my decision before 24 May 2023.

Tero Hiltunen
Ombudsman