

The complaint

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

What happened

In September 2018, Mr L acquired a used car financed by a hire purchase agreement from Blue Motor Finance. Mr L was required to make 60 monthly repayments of around £169 followed by a final payment of around £319. The total repayable under the agreement was around £10,484.

Mr L 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 credit worthiness and affordability checks. It said that Mr L's checks didn't trigger any concerns and his application was approved in line with its credit policy.

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

Blue Motor Finance didn't agree and said Mr L's credit file at the time of application didn't show signs of financial difficulties although it accepted he was making use of payday loans. It said based on Mr L's income and that he was living with parents, its checks were proportionate. It noted the spending on gambling but said that this had decreased in the three months leading up to the agreement suggesting Mr L was getting his spending under control.

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.

The credit check Blue Motor Finance completed showed that Mr L had previously struggled to meet his repayments as there were historic defaults recorded. Mr L was also making frequent use of short-term borrowing. I think this ought to have indicated that Mr L might be struggling financially. It therefore would have been proportionate for Blue Motor Finance to have got a more thorough understanding of Mr L's financial circumstances before lending.

Given Mr L's credit report results I think it would have been proportionate for Blue Motor Finance to have verified Mr L's income and expenses before lending. One way it could have

done this was by requesting copies of his bank statements. I've reviewed three months of bank statements leading up to the lending decision.

Mr L's declared income was £2,500 a month. His statements suggest £2,500 was before tax / deductions and his net income was around £2,000 a month in the months leading up to the lending. Mr L had limited committed expenditure which isn't unexpected given he was living with parents at the time. He has explained he was paying £200 a month rent and his statements show he was paying a gym membership and for some other living costs. I do not find this would cause concern. However, if verification of Mr L's expenses had taken place, I think it likely Blue Motor Finance would have realised that Mr L was making frequent use of high-cost lenders and spending significant amounts on gambling. I think this would have raised concerns about Mr L's ability to manage his money at the time such that I think providing him with additional lending wasn't responsible. Therefore, I do not think that Blue Motor Finance acted fairly by providing 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 L should therefore only have to pay the original cash price of the car, being £6,885. Anything Mr L has paid in excess of that amount should be refunded as an overpayment.

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

- Refund any payments Mr L has made in excess of £6,885, 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 L'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 L a certificate showing how much tax it's taken off if Mr L 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 L to accept or reject my decision before 6 July 2023.

Jane Archer
Ombudsman