

## **The complaint**

Mr M complains that Mitsubishi HC Capital UK Plc trading as Novuna Personal Finance lent to him irresponsibly.

## **What happened**

Mr M's complaint is about a loan provided by Novuna. The loan was advanced in July 2022 and was for £10,000 repayable by 48 monthly repayments of £334.37.

Mr M complained that Novuna lent to him irresponsibly.

Novuna didn't uphold the complaint. It said it had done enough to check that Mr M could afford the repayments before it agreed to lend to him.

Mr M remained unhappy and brought his complaint to this service.

Our investigator upheld the complaint. He said he didn't think Novuna had carried out reasonable and proportionate checks and said that Novuna should've done more to obtain detailed information about Mr M's income and expenditure. The investigator said that if reasonable and proportionate checks had been carried out, these would've shown that Mr M wasn't likely to be able to sustainably repay the loan.

Novuna didn't agree. It said it had carried out reasonable and proportionate checks before agreeing to lend to Mr M.

## **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.

We've set out our approach to complaints about unaffordable and irresponsible lending on our website. I've had this approach in mind when considering Mr M's complaint.

Novuna needed to take reasonable and proportionate steps to ensure that it didn't lend to Mr M irresponsibly. This means it should've carried out reasonable and proportionate checks to satisfy itself that Mr M could repay the loan in a sustainable way. These checks could take into account a number of things, such as the loan amount, the repayments amount and Mr M's income and expenditure.

Mr M declared an income of £38,000 when he applied for the loan. Novuna validated this using data obtained from credit reference agencies and estimated Mr M's net monthly income as £2,449.

Novuna carried out a credit search and saw that Mr M had existing credit commitments of around £13,300 with monthly credit repayments of around £668. Novuna used this information to assess whether Mr M could afford the loan. The loan repayments were £334 per month. Novuna calculated that this would leave Mr M with around £1445 per month for all other expenses.

I've thought about whether the checks carried out by Novuna were reasonable and proportionate. In doing so I've had regard to the amount of the loan and the term over which it was being repaid, as well as the other relevant factors I've mentioned.

The amount of the loan was substantial, and Mr M was already repaying a significant amount of existing credit. The repayments on this loan meant that Mr M's total monthly credit repayments were over £1000, over 50% of his estimated net monthly income. In the circumstances, I think Novuna should've carried out further checks to verify Mr M's income and expenditure.

I can't be certain of what further checks Novuna would have carried out. So I've looked at the bank statements provided by Mr M covering the period leading up to the loan.

The statements show that Mr M was receiving average monthly income of £2707. They also show that Mr M was paying rent and household costs, and child maintenance payments.

Looking at all of Mr M's regular expenditure, including credit repayments (but before taking the new loan repayments into account), Mr M had monthly disposable income of around £300. This wasn't enough to meet the new loan repayment of £334.

Based on what I've seen, I don't think the checks carried out by Novuna were reasonable and proportionate. If Novuna had have carried out reasonable and proportionate checks I think it would've concluded that Mr M wasn't likely to be able to sustainably repay the loan.

### **Putting things right**

Mr M wants the loan written off. I don't think it's fair to ask Novuna to do this because Mr M has had the benefit of the money. Instead, I think Novuna should refund the interest and charges applied to the loan.

Novuna must:

Add up the total amount Mr M received as a result of being given the loan. Deduct the repayments made by Mr M.

If this results in Mr M having paid more than he received, any overpayments should be refunded together with 8% simple interest calculated from the date the overpayments were made to the date of settlement.\*

If any capital balance remains outstanding, Novuna must arrange an affordable payment plan with Mr M

\*HMRC require Novuna to deduct tax from the refund of interest. Novuna must give Mr M a certificate showing how much tax has been deducted if he asks for one.

### **My final decision**

My final decision is that I uphold the complaint. Mitsubishi HC Capital UK Plc trading as Novuna Personal Finance must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 15 June 2023.

Emma Davy

**Ombudsman**