DRN-4290494

The complaint

Miss V believes PCF Bank Limited acted irresponsibly by agreeing a conditional sale agreement she'd applied for.

What happened

In February 2019, Miss V was supplied with a used car through a conditional sale agreement with PCF. The agreement was for £8,995 over 60 months, with monthly repayments of £239.46.

Miss V has complained that PCF didn't act responsibly when approving the finance. She didn't think they'd carried out sufficient verification and affordability checks. She said her income was only £1,500 a month, which she relied on for herself and her three children. And she didn't think that PCF had properly considered her outgoings – she had a low credit rating and a County Court Judgement (CCJ) at the time of the application.

Miss V also complained that PCF failed to assist her by freezing interest and charges when she was in financial difficulties. And this meant she was unable to maintain a payment plan. She was also unhappy they didn't complete an income and expenditure assessment when they extended her agreement, following a payment deferral that had been put in place because Miss V's income was affected by the coronavirus (Covid-19) pandemic.

PCF didn't uphold Miss V's complaint, so she brought it to the Financial Ombudsman Service for investigation.

Our investigator said that, by completing a full credit check, verifying Miss V's income, and using data from the Office for National Statistics (ONS) to assess her outgoings; PCF had completed reasonable and proportionate checks. And, as Miss V had declared that she had no dependents, and there was nothing PCF had seen that would indicate anything different, these checks showed that Miss V was able to sustainably afford the payments. So, the investigator thought PCF had made a fair lending decision.

With regards to Miss V's financial difficulties, the investigator said that PCF had accepted reduced payments, waived some interest and charges, and put a payment deferral in place when Miss V's income had been affected by Covid-19. The investigator also said that, although a separate assessment of income and expenditure wasn't required for a Covid-19 payment deferral, PCF had asked Miss V to provide this information when she wanted to make a payment arrangement in November 2021. However, Miss V didn't send this information to PCF until December 2021 (which PCF didn't receive) and again in July 2022. After which Miss V didn't reply to PCF's contacts about setting up a payment plan.

Given this, the investigator thought that PCF had acted with forbearance and due consideration when dealing with Miss V's financial difficulties. And she didn't think they needed to do anything more.

Miss V didn't agree with the investigator. She said that the CCJ she had at the time (which has since been set aside and removed from her credit file) impacted the interest rate PCF offered, which would've increased the payment she had to make. And she didn't think that PCF had taken into consideration that she had a £509 default at the time.

Miss V also didn't think it was fair for PCF to rely on ONS data for her expenditure, as this wouldn't have accounted for her personal or cultural needs. And the figures they used didn't reflect her actual outgoings. Or that she would have additional expenses relating to the car she was being provided with i.e., insurance, fuel, and maintenance costs.

Miss V provided copies of her February to June 2019 payslips (all of which were after the loan was taken out), and these showed an average monthly income of £1,541. She also provided evidence that she'd failed to pay a water bill in July 2019, that she owed the DWP £723 in February 2019, and that she spent £750 replacing the clutch on a car in March 2019.

Additionally, she's provided a February 2019 car insurance quote, which shows her insurance premiums would be reducing by £230 a year, as well as bank statements for the period *after* the finance was taken out. And she's said that, because she was supplied with a 7-seater car, which was more roomy and reliable, this should've been an indicator that she had dependents, as a single person with no dependents *"would have purchased a tiny 5 seater car which suits a single person's needs."*

The investigator didn't think this additional evidence showed PCF had acted unreasonably when approving the finance. And she didn't change her view. So, Miss V asked for an ombudsman to make 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.

When someone complains about irresponsible and/or unaffordable lending, there are two overarching questions I need to consider in order to decide what's fair and reasonable in all of the circumstances of the complaint. These are:

1. Did PCF complete reasonable and proportionate checks to satisfy itself that Miss V would be able to repay the credit in a sustainable way?

    a. if so, did PCF make a fair lending decision?
    b. if not, would reasonable and proportionate checks have shown that Miss V could sustainably repay the borrowing?

2. Did PCF act unfairly or unreasonably in some other way?

And, if I determine that PCF didn't act fairly and reasonably when considering Miss V's application, I'll also consider what I think is a fair way to put things right.

<u>*Did PCF complete reasonable and proportionate checks to satisfy itself that Miss V would be able to repay the credit in a sustainable way?*</u>

There's no set list for what reasonable and proportionate checks are, but I'd expect lenders to consider things such as the amount, duration, and payments of the finance being applied for, as well as the borrowers' personal circumstances at the time of each application.

PCF have said that, as part of every application for credit they receive, they undertake eligibility, creditworthiness, and affordability checks. And they do this by reviewing the customer's credit file and their monthly income and expenditure (from ONS data). They've evidenced they carried out these checks for Miss V. And the use of ONS data is an industry standard way of calculating affordability. So, I can't say that PCF have done anything wrong by using this method.

Given this, based on what I've seen and PCF's comments, I'm satisfied that PCF carried out reasonable and proportionate checks. And I wouldn't have expected them to do anything more, for example obtain copies of Miss V's bank statements.

Did PCF make a fair lending decision?

In applying for finance, Miss V declared a £21,600 gross annual income, which PCF calculated to be around £1,500 a month net. She also declared that she had no dependents. And this resulted in the ONS data saying that her total monthly costs for essential bills would be approximately £1,000 a month.

Had Miss V correctly declared that she had three dependents, this would've affected (increased) the outgoings calculated by the ONS data. However, while I've noted Miss V's comments about the car, I don't think it's reasonable for PCF to assume that customers who want a larger car must therefore have dependents – an individual will choose a car for a number of different reasons, and someone without dependents is not limited to purchasing (in Miss V's words) a tiny car.

What's more, I wouldn't expect PCF to ask Miss V to prove that she had no dependents as part of any application process, especially given that this would be almost impossible to do. As such, I'm satisfied that PCF acted reasonably by relying on the information Miss V had provided them about her dependents. And therefore, by using this information to calculate her likely outgoings.

PCF have provided a copy of the credit check they carried out for Miss V when she applied for finance. This showed that Miss V had four active credit accounts with a total outstanding balance of £200, and total payments of £20 a month. Miss V's credit file also showed that she had two historic defaults, dated between February and September 2016, with a total default balance of £150.

The CCJ Miss V had at the time, which was later set aside, doesn't appear on her credit file. Nor does the £509 default she's also said she had. What's more, I haven't seen anything to show me that Miss V made PCF aware of either the CCJ or the large additional default. And it's not reasonable for me to say that PCF should've based their lending decision on information they weren't aware of.

Additionally, I wouldn't expect PCF to decline any finance application just because there were defaults and/or CCJs present. However, I would expect them to consider these as part of any overall lending and risk decision. Which, in this instance, is what PCF did.

Miss V also provided PCF with a copy of her January 2019 payslip. This showed an income of £1,705 a month. While her later payslips have shown an average income of £1,541 a month, these are all dated after the finance was agreed. So, they wouldn't have been available to PCF had they asked for more payslips when Miss V's application was being processed. And, had PCF thought an additional payslip was necessary, the bank statement Miss V has subsequently provided for December 2018 shows an income of £1,856. So, this is what her payslip would've shown.

As such, had PCF gone for further income verification (and I don't think they needed to) this would've supported the £1,700 income figure they used in the affordability calculation.

Turning to this affordability statement, I've seen that PCF used the gross income figure of £21,600 Miss V declared in her application (as well as the zero dependents she'd declared) as part of the ONS calculation of her expenses. And, after deducting the £1,000 ONS expenses and the £20 credit commitments from Miss V's payslip proven income of £1,700, this gave her £680 a month from which to pay the £240 finance payment, as well as any other discretionary expenditure she had – what Miss V has referred to as her personal and cultural needs, as well as any costs relating to the car.

Furthermore, I haven't seen anything to show me that Miss V provided PCF with any additional information about her income and expenditure that would've indicated that PCF's affordability calculation was incorrect.

Given this, I'm satisfied that the lending decision PCF made was fair and reasonable in the circumstances.

Did PCF act unfairly or unreasonably in some other way?

I've seen that Miss V maintained payments on the agreement until October 2019. The November 2019 payment was missed but PCF's case notes show she told them the reason for this was because she had moved home, and it would take time for her to secure a new job. And there's nothing to show that she ever said that the finance wasn't affordable, and that she was struggling to keep up with payments because of this.

Miss V agreed a payment plan for this in January 2020, and PCF waived all fees and charges. Her income was affected by Covid-19 in April 2020, and PCF arranged for a payment deferral. As Miss V didn't want to increase her payments once the deferral had ended, PCF extended the agreement term to account for the deferred payments. As this deferral was provided under the Financial Conduct Authority's (FCA) Covid-19 guidance for customers with affected income, PCF didn't need to do an affordability assessment at this point. So, I can't say they've done anything wrong by not doing this.

Miss V resumed payments in July 2020. In October 2020 she told PCF that due to a change in her circumstances, she was no longer able to afford the payments. PCF provided her with her options, but the Statement of Account shows that she maintained the payments until she missed the one due in March 2021.

Miss V contacted PCF about this in April 2021, and again explained the payment was missed due to the additional expenses associated with moving home. And she agreed to pay an additional £20 a month to repay the arrears. However, Miss V stopped paying this additional amount after the August 2021 payment. In November 2021, she explained to PCF that this was because she had fallen behind with other payments. And she asked about setting up a new payment plan.

PCF asked Miss V to complete an income and expenditure form. She did this, and sent it back to PCF on 3 December 2021, with an offer to pay an additional £30 a month to clear her arrears. It's not disputed that PCF didn't receive this, but despite saying that she would, Miss V didn't make any additional payments towards her arrears. She did, however, maintain the regular payments to PCF.

In July 2022, after PCF had tried to arrange a home visit to discuss the arrears, Miss V resubmitted the income and expenditure form she'd completed in December 2021. PCF received this and asked her how much she was able to pay towards the arrears. However, Miss V didn't reply, and then she raised her complaint about unaffordable lending.

Given what has happened, I'm satisfied that PCF have acted in line with the FCA's guidelines for treating customers in arrears with forbearance and due consideration. And I don't think they've done anything wrong by either not waiving any additional interest and charges, or by reporting Miss V's arrears to the credit reference agencies.

As such, and while I appreciate it will come as a disappointment to Miss V, I don't think that PCF have acted unfairly or unreasonably in any other way.

My final decision

For the reasons explained above I don't uphold Miss V's complaint about PCF Bank Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss V to accept or reject my decision before 21 September 2023.

Andrew Burford
Ombudsman