

## **The complaint**

Mr S is complaining about Blue Motor Finance Ltd (BMF). He says they acted irresponsibly in lending to him as the loan was unaffordable. A representative has brought Mr S's complaint to our service but for ease I've written as if we've dealt directly with him.

## **What happened**

In July 2022, Mr S took out a hire purchase agreement with BMF to finance the purchase of a vehicle. He paid no deposit and borrowed £16,490 - the cash price of the car. The agreement required Mr S to make 60 monthly repayments of £474.96, and an optional fee of £1 to purchase the car at the end of the agreement.

In June 2023, Mr S complained to BMF, saying his credit file at the time of lending showed that he was already struggling financially. He didn't think BMF had carried out proportionate checks and said if they had they shouldn't have lent to him.

BMF replied to the complaint, saying they'd checked Mr S's credit data obtained from one of the credit reference agencies (CRAs). They said they'd checked for various indicators of over indebtedness and didn't need to investigate further. So, they said, they'd done reasonable and proportionate checks.

Mr S remained unhappy and brought his complaint to our service. One of our investigators looked into the matter and didn't think it should be upheld. They didn't think BMF had done proportionate checks, but thought that if they had it's likely they'd have still concluded the loan was affordable for Mr S.

Mr S wasn't happy and asked for an ombudsman's decision, saying his credit file demonstrated he was already in financial difficulties when he applied for the hire purchase agreement. Mr S asked for an ombudsman's decision – and the complaint's come to me.

## **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.

Having done so, and acknowledging it'll be disappointing for Mr S, I'm not upholding his complaint – I'll explain why below.

The Financial Conduct Authority (FCA) sets out in a part of its handbook known as CONC what lenders must do when deciding whether or not to lend to a consumer. In summary, a firm must consider a customer's ability to make repayments under the agreement without having to borrow further to meet repayments or default on other obligations, and without the repayments having a significant adverse impact on the customer's financial situation.

CONC says a firm must carry out checks which are proportionate to the individual circumstances of each case.

*Did BMF carry out proportionate checks?*

BMF said they asked Mr S what his income was and they looked at his credit file. They said they'd looked for indicators of over-indebtedness, financial stress and affordability issues. BMF haven't given any detail as to what they found, but they said Mr S's application was approved based on his stated income of £4,319 per month.

CONC 5.2A.15R requires a firm to take reasonable steps to determine or make a reasonable estimate of the customer's current income unless the firm is able to demonstrate that it's obvious in the circumstances that the customer is able to make the repayments. It goes on to say that the firm must take account of that income when making an assessment of affordability. And CONC 5.2A.16G says it's not generally sufficient to rely on a customer's own statement of their income – checking independent evidence is advised.

I haven't seen that BMF sought any independent verification of Mr S's income. So it follows that I'm not satisfied they carried out reasonable and proportionate checks.

When our service concludes that a business should have done something different, we think about what would have happened if they had. So, I'll go on to think about what BMF would have found and what they could have fairly decided if they had done proportionate checks.

*If BMF had done proportionate checks, what would they have found?*

Proportionate checks would have involved BMF independently verifying Mr S's income. Having looked at his bank statements for the months leading up to the lending decision, I can see Mr S's net income was around £2,800, significantly less than the £4,319 shown on Mr S's application.

The repayments for this agreement were significant, at around £475 per month. And Mr S's credit file showed a significant number of creditors. So I think BMF would also have needed to consider the amount Mr S needed to pay his creditors each month. Looking at the credit report BMF obtained, I can see Mr S needed to pay £94 per month for a loan, and £409 per month for an existing hire purchase agreement. But the existing hire purchase agreement was being replaced by the BMF one – so they'd have only needed to take the £94 into account. Mr S also had a number of credit cards, with a total balance of around £3,500 at the time of the agreement. I'd expect BMF to factor in repayments on these at around 5%, so at least £175. So in total it would have been reasonable for BMF to assume Mr S needed to pay around £275 per month to his existing creditors.

Deducting the £275 per month for existing creditors and the £475 per month for the new agreement from Mr S's net income of £2,800 suggests Mr S would have had over £2,000 per month left to cover essential living expenses. Mr S's application states he was single and living with his parents. So I think BMF could have reasonably assumed £2,000 would have been enough to cover these expenses without needing to investigate further.

I appreciate Mr S has pointed to his credit file as evidence of his financial difficulties. Whilst he's said he had 18 open revolving credit accounts, I could only see eight on his credit file, with only one late payment in the twelve months preceding this agreement. There is more information on this report than on the one BMF were looking at, but I haven't seen enough on either to that Mr S's management of his finances was particularly poor. I can't conclude that it was irresponsible for BMF to lend to Mr S.

In summary, I don't think BMF did proportionate checks before lending to Mr S. But I think it would have been reasonable and proportionate for them to verify his income and compare this the amounts he'd need to pay creditors each month. With £2,000 to cover his monthly living expenses, I'm satisfied BMF could have reasonably decided to lend to Mr S without further analysis of his expenditure.

**My final decision**

As I've explained above, I'm not upholding Mr S's complaint about Blue Motor Finance Ltd.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 18 March 2024.

Clare King  
**Ombudsman**