

The complaint

Mr M is complaining about Stellantis Financial Services UK Limited trading as PSA Finance UK (PSA). He says they shouldn't have lent to him as the repayments were unaffordable.

What happened

In August 2019, Mr M took out a hire purchase agreement with PSA to finance the purchase of a vehicle. He borrowed £6,508 and paid a deposit of £1,200 – the cash price of the vehicle was £7,708. The agreement required Mr M to make 59 monthly repayments of £133.79, and then a final instalment of £134.79. Mr M made all of his repayments on time, by direct debit, and settled the agreement early, in January 2023.

In late 2022, Mr M complained to PSA, saying he thought they didn't consider his financial situation at the time of lending to him and that it was irresponsible for PSA to have accepted his application for finance.

In response, PSA said customers have a responsibility to ensure they understand what they're agreeing to. And they said Mr M had signed his contract which urged him to consider affordability before proceeding. In terms of their decision to lend to Mr M, PSA said they'd used credit scoring and current account turnover information to assess a customer's ability to repay a loan in a sustainable way. They said there were no indicators that Mr M was over indebted or had other adverse indicators. And he was a homeowner in stable employment which suggested stability. PSA offered Mr M the opportunity to return the vehicle and end the agreement. Although Mr M appears to have initially accepted PSA's response, he then brought his complaint to our service shortly after settling the agreement.

Our investigator looked into Mr M's complaint and thought it should be upheld. He said he didn't think PSA had done proportionate checks – and if they had, they'd have realised the agreement wasn't affordable for Mr M. So, he said, they should refund him any amounts he'd paid in excess of a fair usage amount.

PSA weren't happy. They said Mr M worked in a managerial position in a finance company, so he wasn't a financially unsophisticated applicant and would have been aware of the responsibilities and implications of entering into the agreement. They also pointed out Mr M had made all of his repayments on time. They added that if Mr M had reconsidered the affordability of the loan after accepting it he could have contacted them with his concerns and they'd have looked into it. Finally PSA said Mr M suggested it was essential that he had a car – so if they'd declined to lend to Mr M then he'd have sourced a vehicle from elsewhere or needed to spend money on other transport. They confirmed they wanted an ombudsman to look at the complaint – and it'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, I'm upholding Mr M's complaint for broadly the same reasons as our investigator. I'll explain more 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.

PSA have made several comments about a customer's responsibility to understand the information available and take responsibility for their decisions. But this does not override the responsibilities of a firm. In my decision I've considered whether PSA did what was required of them, rather than whether Mr M did what was required of him.

Did PSA carry out proportionate checks?

PSA said they:

- reviewed Mr M's credit file; and
- reviewed his current account turnover data to assess his income and outgoings.

Whether or not these checks were proportionate depends on various factors, including the size and length of the loan, and what PSA found. The total amount payable was just over £9,000, but the term of the loan was five years.

PSA told us their credit check showed Mr M had secured loans of around £103,000, two unsecured loans totalling around £7,500 and two credit cards, with a balance totalling around £5,300. They also noted he had taken out a number of payday loans previously but the latest one had ended in August 2018, over a year before his application to PSA.

PSA also said Mr M had been in his job within insurance for over 30 years, so he was considered to be in stable employment and financially astute. But this isn't supported by his credit history – the number of payday loans should have been an indicator to PSA that Mr M might have difficulties managing his finance.

PSA have provided very limited information about the current account turnover analysis. I can't see that they made any other efforts to understand what Mr M's income would be. CONC 5.2A.15R requires a firm to take reasonable steps to determine the amount or make an estimate of the customer's current income (unless they can demonstrate that it's obvious that the customer is able to make repayments). PSA haven't demonstrated that it was obvious that Mr M would be able to make repayments. And they haven't demonstrated that they took steps to determine the amount of Mr M's income.

On balance I'm not satisfied PSA did proportionate checks before deciding to lend to Mr M. He had a significant amount of debt, had used payday loans regularly until fairly recently, and PSA made no attempt to understand his income or expenditure, instead relying on an automated score.

If PSA had carried out proportionate checks, what would they have found?

A proportionate check would have involved PSA finding out more about Mr M's financial commitments, income and expenditure to determine whether he'd be able to make the repayments in a sustainable way, rather than assuming his income was sufficient.

I've looked at statements for Mr M's bank accounts for the three months leading up to his finance application. I'm not saying PSA needed to obtain bank statements as part of their

lending checks. But in the absence of other information, bank statements provide a good indication of Mr M's commitments and expenditure at the time the lending decision was made.

Having done so, I can see Mr M's income was regular, at around £2,200 each month. His monthly non-discretionary expenditure was a similar level, made up of mortgage payments of £736, energy bills and council tax totalling £290, TV and internet services totalling £130, car insurance and road tax totalling around £140, other insurances totalling around £50 and loan repayments totalling around £750. This amounts to around £2,170 and doesn't include anything for food, fuel, and other essentials. Adding on the repayments under the PSA agreement would have caused Mr M's non-discretionary expenditure to exceed his income. It follows that I don't think the agreement was affordable for Mr M and if PSA had done proportionate checks they wouldn't have been able to fairly decide to lend to Mr M.

I appreciate PSA say Mr M has made his repayments on time and settled the agreement early so it can't have been unaffordable. But this takes no account of any additional debt Mr M may have had to take out in order to do so.

Putting things right

Because I don't think PSA should have approved the loan, I don't think it's fair for them to charge any interest or other charges under the agreement. But Mr M has had use of the car so he should pay for that. To settle Mr M's complaint, PSA should do the following:

- Refund all the payments Mr M has made in excess of £7,708, representing the original cash price of the car. PSA 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 M's credit file regarding the agreement.

If PSA consider tax should be deducted from the interest element of my award they should provide Mr M a certificate showing how much they've taken off so that Mr M can reclaim that amount, assuming he is eligible to do so.

My final decision

As I've explained above, I'm upholding Mr M's complaint. Stellantis Financial Services UK Limited trading as PSA Finance UK need to take the steps outlined above to settle the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 12 December 2023.

Clare King
Ombudsman