

The complaint

Mr W complains that Volkswagen Financial Services (UK) Limited ("VWFS") irresponsibly gave him a hire purchase agreement he couldn't afford to repay.

What happened

In September 2021, Mr W acquired a used car using a hire purchase agreement from VWFS. The cash price of the car was £23,679. Mr W paid an advance payment of £2,149.01. He was required to pay 48 monthly repayments of £352.24, followed by an optional final payment of £8,820 if he wanted to take ownership of the car.

In 2023, Mr W complained to VWFS to say that the hire purchase agreement was unaffordable, and it should not have been given to him. He was also unhappy that VWFS hadn't given him a payment break when he said he was facing short-term financial difficulty.

VWFS didn't agree it had acted unfairly. It said it had completed appropriate affordability checks which showed no concerns about Mr W's ability to repay the borrowing. It said that it offered Mr W a payment plan when he was struggling but he chose not to take it as it would impact his credit file.

Our investigator didn't recommend the complaint be upheld. He didn't think VWFS had completed proportionate affordability checks. However, he thought that if it had completed an appropriate level of checks it would still likely have concluded that the agreement was affordable to Mr W.

Mr W didn't agree. In summary, he said that VWFS had taken into account only half of the mortgage payment when it should have considered the full amount. At the time of the application his wife was pregnant and went on statutory maternity leave meaning his expenditure increased soon after taking out the finance. He said he would have disclosed this if he had been asked.

The complaint 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.

Before lending to Mr W, VWFS was required to ensure that he could afford to repay the borrowing. There isn't a set list of checks that had to be completed as each lending decision is different. However, VWFS had to ensure that any checks it completed were proportionate to the circumstances of that specific lending decision. In deciding what would be proportionate, VWFS had to take into consideration things such as (but not limited to): the amount borrowed, the term, the size of the regular repayments, the cost of credit and Mr W's circumstances.

As part of the application, Mr W declared that he was a home owner, married and employed

full time. VWFS says it also completed a credit check which showed that Mr W had two joint mortgages, one unsecured loan with a balance of around £5,800 and a hire purchase agreement with around £13,000 outstanding. It said that all of his credit commitments had been paid on time and that there were no signs of financial difficulty or over indebtedness.

VWFS says it used an 'indicative' income to help it determine whether the payments were affordable. It hasn't provided any details of what the income figure it used was or an adequate explanation of how it obtained the figure it used. I'm therefore not persuaded that the affordability checks it completed were reasonable or proportionate. I say this because given the amount borrowed, the term and the size of the monthly repayments, I think VWFS ought to have obtained a good understanding Mr W's income to be able to determine whether he could afford the repayments. I'm not satisfied based on what VWFS has provided that it did do this.

Just because I don't think VWFS carried out appropriate affordability checks, it doesn't mean that the complaint should automatically be upheld. This is because I also need to consider whether any failure by VWFS to do what it should have has caused Mr W any loss. In other words, I need to consider what position Mr W would have been in had VWFS done what it should have i.e. completed reasonable and proportionate affordability checks.

Mr W has told us his income was £25,000 per year (or around £1,700 per month). He has supplied us with copies of his bank statements from around the time of the lending decision which show this to be accurate. He also told us that his monthly outgoings at the time were around £900 to £1,000 – again this appears to be broadly accurate from the bank statements he's provided. I'm persuaded that had VWFS sought to obtain a more detailed understanding of Mr W's income and expenditure before lending it would most likely have found his income to have been around £1,700 monthly and his essential expenditure to be around £1,000 monthly.

The monthly repayments on the hire purchase agreement were around £350 per month. Based on the financial circumstances Mr W has provided (and supported by his bank statements) it appears that the monthly repayments were affordable to him. Having reviewed his bank statements I've not seen any indication of financial difficulty at the time or over indebtedness that might have caused VWFS concerns about lending to him.

Mr W says that VWFS ought to have taken his full mortgage payment into consideration when assessing affordability (not halved it as it was joint). He says had it done this it would have shown the loan to be unaffordable. But I don't think VWFS needed to do that here. It's clear from everything I've seen and from what Mr W says that he was contributing half towards the household costs including the mortgage payments, so to assess affordability on a higher contribution wouldn't have been an accurate reflection of his actual financial circumstances.

Further, Mr W says that his financial circumstances significantly changed after taking out the finance agreement and he would have disclosed this if he'd been asked. While I don't doubt Mr W would have disclosed this information, there was no requirement on VWFS to ask and I've not seen any persuasive reason why VWFS ought to have had concerns about his circumstances potentially changing. If VWFS were reasonably aware that Mr W's financial circumstances would materially change during the agreement I would expect them to take it into account. But I'm not persuaded that there was anything here that ought to have made it aware that was likely, particularly as Mr W says he didn't volunteer this information. Taking all of this into account, I'm not persuaded that VWFS made an unfair lending decision.

Lastly, Mr W also says that VWFS didn't offer sufficient support when his financial circumstances changed after taking out the credit agreement. In 2023 Mr W contacted

VWFS to say he was facing some short-term financial difficulty. I can see that VWFS offered Mr W the opportunity to not pay his contractual monthly payment for a short period of time, but that Mr W didn't want to do this as it would impact his credit file. However, VWFS weren't required to offer Mr W a payment break which wouldn't reflect on his credit file. VWFS also explained to Mr W his various options for exiting the agreement early. I therefore don't think it acted unfairly or unreasonably and I'm satisfied that it offered Mr W suitable options and information when he asked it for help with repayments.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 9 July 2024.

Tero Hiltunen
Ombudsman