DRN-4460268

## The complaint

Mr F complains that First Response Finance Ltd (FRF) irresponsibly entered into a hire purchase agreement with him that he couldn't afford to repay.

Mr F is represented by a third party but for ease of reading I will only refer to Mr F in my decision.

## What happened

In August 2019, Mr F acquired a car when he entered into a Hire Purchase agreement with FRF. The cash price of the car was £7,999. Mr F said he was asked to pay a deposit before the lending was agreed, as FRF would only agree to lend him £7,018. He said he borrowed the deposit amount from a relative. After interest and charges the total amount payable was £11,086.25. Repayable in monthly instalments of £226.25 over 49 months. Mr F said FRF failed to complete adequate affordability checks. And says that if they had it would have been clear the agreement wasn't affordable at the time. He complained to FRF.

FRF said they'd carried out an adequate assessment which included a full credit search, income verification via payslips, statistical estimation of his non-discretionary expenditure and an income and expenditure check. They said they'd spoken to Mr F and he'd confirmed that he was living with his parents, working full time and had no committed expenditure apart from his existing credit. FRF said their searches showed Mr F's existing borrowing levels were minimal and that he'd very little in the way of committed expenditure. They discussed additional costs that Mr F would accrue on acquiring the car as he'd previously used public transport. They said they assessed he'd an income of £981.98, credit commitments of £82.60 and day to day living costs of £370. Which meant Mr F had £529.08 available income before the new loan amount was considered. When factoring this in Mr F had a net disposable income of £302.83. FRF said their decision to lend to Mr F was fair as he'd sufficient income to sustain his repayments.

Mr F wasn't happy with FRF's response and referred his complaint to us.

Our Investigator didn't recommend that the complaint be upheld. She said FRF's checks were proportionate and none of the information they obtained suggested that the lending shouldn't have been approved.

Mr F didn't agree. He said he hadn't been asked about car insurance costs, and that he'd been made to increase his borrowing further when he'd had to use a relative's credit card to make an advance payment of £1,200 before FRF agreed to the lending. He asked for an ombudsman to decide.

## 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.

I appreciate Mr F will  be disappointed but having done so I'm not upholding this complaint.

I'll explain why.

FRF needed to ensure that they didn't lend irresponsibly as per the rules set out in the Financial Conduct Authority's (FCA) Consumer Credit Sourcebook (CONC). In practice, what this means is that FRF needed to carry out proportionate checks to be able to understand whether any lending was affordable for Mr F before providing it.

In this case, there are two overarching questions that I need to answer to fairly and reasonably decide Mr F's complaint. These two questions are:

1. Did FRF complete reasonable and proportionate checks to satisfy themselves that Mr F would be able to repay his loan without experiencing significant adverse consequences?

- If so, did they make a fair lending decision?
- If not, would those checks have shown that Mr F would have been able to do so?

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

Repaying debt in a sustainable manner means Mr F being able to meet repayments without undue difficulty - using regular income, avoiding further borrowing to meet payments and making timely repayments over the life of the agreement.

CONC doesn't give a set list of checks that should be done. But that the level of detail that should be sought was dependent on the type of credit, the amount of credit being granted and the associated risk to the borrower relative to the borrower's financial situation.

So, I'd expect a lender to require more assurance the greater the potential risk to the borrower of not being able to repay the credit in a sustainable way. I'd expect a lender to seek more assurance the lower a person's income, the higher the amount of credit being applied for and the longer the term of the agreement.

And for Mr F I can see that he'd a relatively low income. And the amount he was borrowing was £11,086.25 over 49 months. So, I've considered the checks FRF did.

FRF said that Mr F's application underwent credit and underwriting checks, and these didn't raise any concerns. FRF said their credit history search found while Mr F had five credit cards and a small unsecured loan, his credit commitments were minimal. And he was up to date with his repayments and he hadn't any defaults or county court judgements. They verified Mr F's income by payslips and had discussed his financial circumstances directly with him. They confirmed with Mr F that he lived with his parents and didn't contribute to household bills. As Mr F had previously used public transport, they also discussed with Mr F the expected costs he'd incur when acquiring a car.

So, taking into account Mr F's income, his credit information, the amount he'd to repay each month, I think the checks done by FRF were reasonable and proportionate to determine the sustainability of the lending.

I've now considered based ion the information FRF gathered whether the decision to lend to Mr F was fair.

I can see Mr F worked at an establishment across two shops and was paid weekly by both. His payslips showed Mr F earned,£268.95, £235.75 and £279.99 over a three-week period which would equate to £261.56 on average a week. From FRF's records I can see Mr F said he earned £275 gross a week. FRF used this and chose to conservatively assess his income as £226.61 net a week. Which gave Mr F a monthly salary of £981.98.

Mr F had confirmed he hadn't any housing costs, or utilities as he lived with his parents. And he'd said this car insurance would be around £800 a year. From the information FRF gathered, Mr F had several credit cards the total credit available to him was £3,200 and he'd a small unsecured loan. FRF estimated Mr F as having credit commitments of £82.60 and using Office for National Statistics (ONS) data that he would have £370 in day to day living costs, which should take account of car insurance, tax and petrol.

I can see from this FRF assessed Mr F as having £529.08 available income, but they have also said they allowed a 25% further reduction for any unexpected outgoings which meant Mr F would have had £396.81 available income before the new loan amount was factored in. When it was this left Mr F with a net disposable income of £170.56. And FRF decided on this basis that the lending was affordable.

While Mr F had several credit cards the total credit available to him across the five cards was £3,200 and he'd a small unsecured loan. I can see from FRF's records that the cash price of Mr F's car was £7999, but after their credit assessment they would only agree to lend £7018 to him. This meant Mr F had to make up the difference of £981. I know Mr F has said he' had to borrow £1,200 for I haven't seen any evidence of this amount as the deposit that was paid to reduce the lending to £7,018 was £981. He's said he paid this by borrowing from a relative's credit card. I can see a note in FRF's records that makes mention of borrowing from family. This was an additional credit commitment that wasn't factored into FRF's assessment. So, in total I think Mr F had a total of £4,181 commitment to credit cards. Our approach would be to allow a 5% minimum amount to make sure any credit is paid off in a sustained and timely was. I think therefore Mr F had credit commitments of around £209, and with the small secure loan repayment assessed at £13, this would total £222. I think the amount FRF used for day to day living costs is a reasonable amount as he confirmed he didn't have any housing or utility costs.

If I use the conservative amount for Mr F's income, £981.98, after his credit commitments and day to day living costs, he'd an available income of £389.98 which after factoring the new loan amount meant he'd £163.73 net disposable income for any discretionary spending and unexpected costs. As Mr F lived with his parents and didn't have any dependents, I think this showed FRF made a fair lending decision as I'd consider Mr F as having sufficient funds to sustain his repayments. So I'm satisfied FRF made a fair lending decision.

I can see that Mr F started having difficulty in meeting his repayments from February 2020, but this appears to have been caused by a change in his employment around this time. FRF said they don't charge their customers any late payment fees or interest and from FRF's records payment arrangements were put in place to help Mr F during times of financial difficulty. I understand the agreement has now been settled as the balance was paid off from an insurance claim pay out when the car was written off after an accident. So, I think FRF have been fair and reasonably in their actions with Mr F.

## My final decision

I don’t uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr F to accept or reject my decision before 13 February 2024.

Anne Scarr
**Ombudsman**