

Complaint

Miss N complains that Volkswagen Financial Services UK Limited ("VWFS") unfairly entered into a hire-purchase agreement with her. She's said the agreement was unaffordable and so she shouldn't have been accepted for it.

Background

In April 2018, VWFS provided Miss N with finance for a used car. The cash price of the vehicle was £22,436.00. Miss N paid a deposit of £29.70 and entered into a 49-month hire-purchase agreement with VWFS to cover the remaining £22,406.30.

The loan had interest, fees and total charges of £4,372.28. So the total amount to be repaid of £26,748.88 (not including Miss N's deposit) was due to be repaid in 48 monthly instalments of £365.81 followed by an optional final monthly payment of £9,190.00.

Miss N's complaint was considered by one of our investigators. She didn't think that VWFS had done anything wrong or treated Miss N unfairly. So she didn't recommend that Miss N's complaint should be upheld. Miss N disagreed with our investigator and the complaint was passed to an ombudsman for a final decision.

My decision

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

We've explained how we handle complaints about irresponsible and unaffordable lending on our website. And I've used this approach to help me decide Miss N's complaint.

Having carefully thought about everything I've been provided with, I'm not upholding Miss N's complaint. I'd like to explain why in a little more detail.

VWFS needed to make sure that it didn't lend irresponsibly. In practice, what this means is that VWFS needed to carry out proportionate checks to be able to understand whether Miss N could make her payments in a sustainable manner before agreeing to lend to her. And if the checks VWFS carried out weren't sufficient, I then need to consider what reasonable and proportionate checks are likely to have shown.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify that information – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low, the amount lent was high, or the information the lender had – such as a significantly impaired credit history – suggested the lender needed to know more about a prospective borrower's ability to repay.

I have to say that despite being chased for this information on a number of occasions VWFS hasn't really said anything at all about the checks it carried out. Rather disappointingly, it has instead said that on Miss N passed its criteria without saying what it saw about Miss N that led it to reach its conclusion. As this is the case, I'm not prepared to accept the checks VWFS carried out before entering into this hire-agreement with Miss N were reasonable and proportionate.

As this is the case, I need to recreate proportionate checks in order to determine what they are more likely that not to have shown VWFS had they been carried out. In my view, given the amount of the monthly payments here and the length of time they needed to be made for, I would have expected VWFS to have had a reasonable understanding about Miss N's regular living expenses as well as her income and existing credit commitments.

I've considered the information Miss N has provided us with. And having done so, this information does appear to show that when Miss N's committed regular living expenses and existing credit commitments are deducted from her income, she did have the funds, at the time at least, to sustainably make the repayments due under this agreement.

Miss N is unhappy that payments for rent weren't included in her expenditure. Miss N has said that even though she was living with her parents she was paying rent to them. But having considered all of the information provided, including her bank statements, I can't see anything evidencing rent payments. So, in my view, it is unlikely – and less likely than not – that this is something VWFS could or would have considered as a result of carrying out proportionate checks.

Having considered everything, I'm satisfied that the available information - including the nursery payments Miss N has referred to and was making - makes it appear, at least, as though Miss N had sufficient funds in order for the monthly payments to this agreement to be made in a sustainable manner.

I accept that it's possible Miss N's actual circumstances may not be fully reflected in the information provided. For example, I know her circumstances changed in 2019. But VWFS won't have known that this would happen. All I'd expect it to do is find out what I think it would have been reasonable to know had proportionate checks been carried out, which I have highlighted above.

Overall and having carefully considered everything, while I don't think that VWFS' checks before entering into this hire-purchase agreement with Miss N did go far enough, I've not been persuaded that reasonable and proportionate checks would have prevented VWFS from providing these funds, or entering into this agreement with her.

This means I've not been persuaded that VWFS acted unfairly towards Miss N when it lent to her and I'm not upholding the complaint. I appreciate that this will be very disappointing for Miss N. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

Although I'm not upholding this complaint, I'd like to remind VWFS of its obligation to exercise forbearance and due consideration in relation to the outstanding balance on Miss N's account, subsequent to the agreement being terminated, should it be the case that she is experiencing financial difficulty and it seeks to collect payment.

My final decision

My final decision is that I'm not upholding Miss N's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss N to accept or reject my decision before 22 February 2024.

Jeshen Narayanan
Ombudsman