

The complaint

Mrs A complains that FirstRand Bank Limited trading as MotoNovo Finance was irresponsible to have agreed car finance for her in 2014.

What happened

MotoNovo entered into a hire purchase agreement for a car with Mrs A in March 2014. The price of the car was £16,995. Mrs A contributed £9,500 by way of a deposit and part-exchange, and borrowed £7,495. The total amount owing under the agreement (including the deposit, interest and fees) came to £19,277.88. The monthly instalments were £199.56 for 47 months with a final payment of £398.56. As it was a hire purchase agreement, MotoNovo remained the vehicle owner until Mrs A had made all her repayments and so she was, in essence, paying for the use of it.

Mrs A complained to MotoNovo in May 2023 that it didn't carry out sufficient checks before lending to her to assess whether the repayments would be affordable. Mrs A said she barely had any money left to function each month, was stressed and under pressure a lot of the time, and relied on her parents to help her when she was unable to meet her living costs. Mrs A would like to be paid compensation for MotoNovo's lack of due diligence.

MotoNovo disagreed that it had been irresponsible to lend to Mrs A and didn't uphold her complaint. It said it relied on the information she supplied along with information from her credit file to make its lending decision.

Mrs A didn't accept this response and brought her complaint to us. One of our investigators looked into it but didn't recommend that it be upheld. They found that MotoNovo should have carried out further checks before lending to Mrs A, but that such checks would likely have shown the credit to be affordable.

Mrs A didn't accept this recommendation and asked for the complaint to come to an ombudsman to decide.

Mrs A has also complained about undisclosed commission in relation to this finance agreement. This is being investigated by our Service as a separate complaint and I won't look into this. My decision deals solely with Mrs A's complaint about irresponsible lending.

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've also had regard to the relevant regulator's rules and guidance on responsible lending that lenders, such as MotoNovo, needed to abide by. MotoNovo will be aware of these, and our approach to this type of lending is set out on our website, so I won't refer to the regulations in detail here but will summarise them.

MotoNovo needed to check that Mrs A could afford to meet the repayments sustainably before entering into a credit agreement with her. In other words, it needed to check that she could meet her repayments out of her usual means without experiencing undue difficulty or adverse consequences, for example while managing to meeting any existing commitments and without having to borrow or realise assets. The necessary checks needed to take into account both the nature of the credit (its type, amount, term etc.) and Mrs A's particular circumstances.

With this in mind, my main considerations are did MotoNovo complete reasonable and proportionate checks when assessing Mrs A's application to satisfy itself that she would be able to sustainably make the repayments under the agreement out of her usual means? If not, what would reasonable and proportionate checks have shown and, ultimately, did MotoNovo make a fair lending decision?

MotoNovo had checked Mrs A's credit file and provided us with the summary information it relied on. This showed that Mrs A was paying £195 towards an existing hire purchase agreement, which began in September 2011. She owed £1,640 on two credit cards, with a combined credit limit of £3,000, and £30 on an overdraft on one of two current accounts, with a combined credit limit of £1,100. There was no adverse information recorded against these accounts or Mrs A's utility accounts.

The credit file information showed that Mrs A had been managing her existing hire purchase agreement for over two years alongside a relatively low level of borrowing on credit cards. I haven't seen any evidence that Mrs A had to borrow to repay her existing car finance agreement or that she had missed or late payments on any of her accounts.

I don't think the information MotoNovo saw on Mrs A's credit file would, of itself, have raised a concern that she was in financial difficulty, or that swapping this new hire purchase agreement for her existing one would lead her into it, given that the repayment amounts were similar.

MotoNovo said that when Mrs A applied for finance it wasn't a requirement to gather information about an applicant's annual salary. It said it relied on the information applicants supplied along with their credit file information in order to make its lending decisions. MotoNovo didn't have a record of Mrs A's income from the time but said that her application was accepted when checked against its lending criteria and risk appetite.

The regulations in place at the time weren't prescriptive about how lenders were to implement a proportionate check but they did say that self-certification of income wouldn't generally be sufficient in respect of significant long term credit agreements.

Mrs A would potentially need to meet her repayments under this agreement for four years and risked losing access to her car if she couldn't do so. I haven't seen any evidence that MotoNovo independently verified Mrs A's income or found out what her usual living costs were. Given the amount of credit it was offering, the term and the nature of the agreement, I think it would have been reasonable and proportionate of MotoNovo to have gone further in its affordability checks on this occasion, and I've considered what it might have found out had it done so.

Mrs A has provided us with her bank statements for one of her current accounts from around the time and I've reviewed these. To be clear, I'm not suggesting that MotoNovo should have asked specifically for this information but I think it's a reasonable proxy for what a proportionate check might have revealed about Mrs A's circumstances.

The statements show that Mrs A earned around £1,320 a month. It seems she was paid this amount in February 2014 but the exact amount was sometimes higher or lower than this. There were ad-hoc transfers into and out of the account which Mrs A explained were to and from her savings account which she used to manage her finances each month. I haven't considered these amounts as evidence of additional funds. I've looked through the statements for a few months prior to the agreement to estimate Mrs A's identifiable regular expenses (rent, council tax, bills, food and petrol, for example) and found that, on average, these came to around £920 a month.

This sum doesn't include Mrs A's payments towards her credit card balances or her payments of £195 towards her existing hire purchase agreement which I understand was replaced by the MotoNovo agreement. I've estimated that Mrs A had around £400 a month to meet her car finance repayment each month, and to make sustainable repayments for the other credit she'd borrowed along with any unexpected expenses. And so, I don't think MotoNovo would have been concerned about the affordability of the agreement for Mrs A, had it verified her income and gathered more information about her regular living costs and financial commitments.

In summary, I've concluded that MotoNovo would likely have continued to offer Mrs A this credit even if it had carried out a proportionate check before lending to her. It seems Mrs A would have been able to afford the repayments alongside her existing commitments and costs, and had a good credit history with relatively low existing debt. I can't say, therefore, that Mrs A would not have entered into the agreement but for errors in MotoNovo's assessment. I've concluded that MotoNovo didn't treat Mrs A unfairly or make an irresponsible lending decision here, and so I am not upholding her complaint.

Mrs A told us that she had to rely on her parents on occasion and that she was always stressed and panicked about her finances. I am sorry to hear that things were difficult for Mrs A and that I can't provide the resolution she's asked for. I hope I've clearly explained how I've reached my conclusions, though Mrs A will no doubt be disappointed with the outcome.

My final decision

For the reasons set out above, I am not upholding Mrs A's complaint about irresponsible lending against FirstRand Bank Limited trading as MotoNovo Finance and it doesn't need to take any action in this regard.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A to accept or reject my decision before 27 November 2024.

Michelle Boundy
Ombudsman