

Complaint

Mrs S complains that RCI Financial Services Limited (trading as “Renault Finance”) unfairly entered into a hire-purchase agreement with her. She’s said her credit score was very poor at the time and so she shouldn’t have been accepted for this agreement.

Background

In January 2019, Renault Finance provided Mrs S with finance for a brand-new car. The cash price of the vehicle was £16,207.04. Mrs S paid a deposit of £7,451.00 (which I understand was made up of a part-exchange value she received for her own vehicle) and entered into a 37-month ‘personal contract purchase’ hire-purchase agreement with Renault Finance for the remaining £8,756.04.

The loan was interest free. So the total amount to be repaid of £8,756.04 was due to be repaid in 35 monthly instalments of £83.51 followed by 1 monthly payments of £83.37 and then an optional final monthly payment of £5,749.82.

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

My findings

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 Mrs S’ complaint.

Having carefully thought about everything I’ve been provided with, I’m not upholding Mrs S’ complaint. I’d like to explain why in a little more detail.

Renault Finance needed to make sure that it didn’t lend irresponsibly. In practice, what this means is that Renault Finance needed to carry out proportionate checks to be able to understand whether Mrs S could make her payments in a sustainable manner before agreeing to lend to her. And if the checks Renault Finance 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.

Renault Finance says it agreed to this application after it completed an income and expenditure assessment on Mrs S. During this assessment, Renault Finance says it carried out credit searches on Mrs S which showed no significant adverse difficulties with credit in the form of defaults or County Court Judgments ("CCJ").

And as I understand it, Renault Finance considered that this was sufficient for it to determine that the monthly payments were affordable. On the other hand, Mrs S says that her credit score was very poor at the time and the agreement was unaffordable.

I've thought about what Mrs S and Renault Finance have said.

The first thing for me to say is that I don't think that the checks Renault Finance carried out did go far enough. In my view, while I wouldn't go as far as saying that Renault Finance needed to have a thorough understanding of Mrs S' finances given the monthly payments, I am nonetheless satisfied that Renault Finance needed to take further steps to get an appreciation of Mrs S' income and actual living costs as well as carrying out a credit check.

As I don't think that Renault Finance did carry out sufficient checks, I have gone on to decide what I think Renault Finance is more likely than not to have seen had it obtained further information from Mrs S. As I've explained, given the circumstances here, I would have expected Renault Finance to have had a reasonable understanding about Mrs S' regular living expenses and her income as well as existing credit commitments (which it already had).

I've considered the information Mrs S has provided us with. And having done so, this information does appear to show that when Mrs 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.

Mrs S is unhappy that her ability to repay the optional finance payment or her ability to obtain further finance once this agreement ended. But Renault Finance wasn't required to do this. It simply needed to consider whether Mrs S could afford to repay the roughly £84 a month due for this agreement because Mrs S wasn't obliged to keep the vehicle.

And, in any event, it would have been extremely difficult for Renault Finance to have carried out such an assessment given it would have had to look at events three years in the future and it's fair to say that the environment, in 2022, was completely different than it was when Mrs S took out this agreement in early 2019.

It's also worth bearing in mind that the monthly payments for this vehicle were extremely low. I accept that the information Mrs S has provided about her circumstances may not fully reflect her position at the time. And I sympathise with what she's said about her financial position. However, it's difficult for me to accept that what has been provided clearly shows that proportionate checks would have shown that Mrs S couldn't afford to make the repayments under this agreement.

Indeed, while this is not in itself determinative of the agreement having been affordable at the time, nonetheless Mrs S did manage to make the payments and her unhappiness seems to stem from not having been accepted for a new agreement once this one finished. I appreciate that Mrs S may regret having taken out this agreement after she wasn't accepted for a new one. But I'm afraid that this doesn't mean that Renault Finance would have known this in 2019, or that it shouldn't have lent to her at this stage.

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

For the sake of completeness, I would add that Mrs S' complaint suggests that she also considers that her motor dealer/broker did not advise her of all her options at the end of her previous agreement. In particular, she's referred to the service she received when she bought her car and not being informed that she could have instead sold her previous vehicle. If Mrs S remains unhappy at this – notwithstanding the conclusions reached on her ability to afford this agreement – then this is a matter should direct to her motor dealer/broker.

However, in relation to Renault Finance's actions in relation to Mrs S' agreement when she reached the end of the term, I can see that it correctly notified her of the options she would have once her final payment was made in advance of it being due. I appreciate that Mrs S is disappointed that she wasn't permitted to sell the vehicle and retain any profit over and above the amount of the optional final payment. But as she entered into a hire-purchase agreement she was not the owner of the vehicle. And this would not happen unless and until that optional final payment was made.

As this is the case, I'm satisfied that the vehicle was not Mrs S' to sell and that Renault Finance did not act unfairly in requiring the vehicle to be returned in circumstances where Mrs S didn't make the final payment. For the sake of completeness and in the hope that reassures Mrs S, I also think it's worth me confirming that the information I've seen suggests that the value of the vehicle, when she returned it, was far closer to the amount of the final payment than the amount she believes it might have sold for at the time.

This means I've not been persuaded that Renault Finance acted unfairly towards Mrs S when it lent to her, or at the end of her agreement and I'm not upholding the complaint. I appreciate that this will be very disappointing for Mrs S. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

My final decision

My final decision is that I'm not upholding Mrs S' complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 14 March 2024.

Jeshen Narayanan
Ombudsman