

## **The complaint**

Mr B says STARTLINE MOTOR FINANCE LIMITED ('Startline') irresponsibly lent to him. He says that it didn't take reasonable steps to ensure he could afford the repayments towards a hire purchase agreement he entered into. He says that if it had done it would have seen that he already had a high amount of debt and so couldn't afford the loan repayments.

## **What happened**

This complaint is about a hire purchase agreement that Mr B took out to purchase a car in August 2020. The vehicle had a retail price of £12,587. Mr B paid £320.86 as a deposit meaning £12,266.14 was financed. This amount was to be repaid through 48 monthly instalments. There were 47 monthly repayments of £252.43 and then an optional final instalment of £4,653.67. If Mr B made repayments in line with the credit agreement, he would need to repay a total of £16,848.74. I understand Mr B sold the car in October 2021 and the agreement ended.

Mr B complained to Startline saying that at the time the credit was agreed he already had a significant amount of borrowing with other lenders. And this meant it would be difficult for him to make the loan repayments. And he said he did have financial problems going forward as he needed to enter into a debt management plan a few months after the hire purchase agreement started.

Startline considered this complaint, and it didn't uphold it. It said it thought it'd done adequate checks, which showed that Mr B could afford the lending. He was also fully informed about the hire purchase terms and he agreed with them. He was willing to borrow. Mr B didn't agree with this and brought his complaint to the Financial Ombudsman Service.

Our Investigator upheld Mr B's complaint. He thought that Mr B did have a significant amount of other credit before he started the hire purchase agreement, and this included short term and high-cost credit. And he wasn't always making the payments to his bills on time. And so, any further credit repayments were likely to be unsustainable for him.

Startline didn't agree with the Investigator. They said that after looking at the bank account statements, and other information Mr B had recently provided such as a recent credit report, it still thought that Mr B would have enough surplus and or discretionary income to have allowed him to make the loan repayments. Particularly as Mr B was living with his parents and so his living costs were likely to be lower than average.

There was some further correspondence, but no new issues were raised and Because Startline didn't agree, this matter has been passed to me to make 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.

When someone complains about irresponsible and/or unaffordable lending, there are two overarching questions I need to consider what's fair and reasonable in all of the circumstances of the complaint. These are:

1. Did Startline complete reasonable and proportionate checks to satisfy itself that Mr B would be able to repay the credit in a sustainable way?
  - a. if so, did Startline make a fair lending decision?
  - b. if not, would reasonable and proportionate checks have shown that Mr B could sustainably repay the borrowing?
2. Did Startline act unfairly or unreasonably in some other way?

And, if I determine that Startline didn't act fairly and reasonably when considering Mr B's application, I'll also consider what I think is a fair way to put things right.

Did Startline complete reasonable and proportionate checks to satisfy itself that Mr B would be able to repay the credit in a sustainable way?

There's no set list for what reasonable and proportionate checks are, but I'd expect lenders to consider things such as the amount, duration, and payments of the finance being applied for, as well as the borrowers' personal circumstances at the time of each application.

Startline has explained it found out that Mr B was in full time, and what it has described as stable, employment. It asked Mr B what his income was and he said that it was around £1,200 a month. It says that it looked at a payslip to verify this.

Startline says it also looked at some information from Mr B's credit file. This showed that he had eight active credit cards, two unsecured loans, two telecoms agreements and one mail order account. It said all of these had been paid well and were up to date at the time of application. He already had a hire purchase agreement which had a repayment of £169 a month. This would be replaced by the new agreement.

So, in summary, Startline seems to have relied on the fact that Mr B was employed and didn't have any adverse information on his credit file to say that the loan repayments were likely to be unaffordable. But it doesn't seem to have considered his expenditure above what was on his credit file.

I don't think this was enough to have assumed that Mr B could afford these loan repayments. Startline was made aware that Mr B had a significant number of other credit accounts, and it should have looked into this further, and found out what his expenditure was in greater detail here. This was to ensure he wasn't overcommitted. And this is particularly as the new loan he was starting had to be repaid for four years.

And whilst Startline has outlined the checks it said it did, it hasn't been able to fully evidence the checks themselves. It hasn't provided the payslip or credit reference information it said it looked at. So, I can't be certain of what it actually considered before lending.

Overall, I'm not persuaded that the checks Startline did were reasonable and proportionate. I think Startline could have looked in more detail that this further lending wasn't likely to cause Mr B a problem going forward.

Would reasonable and proportionate checks have shown that Mr B would be able to repay the credit in a sustainable way?

I've gone on to consider what Startline would likely have found out had reasonable and proportionate checks been carried out.

It's been established Mr B was employed, he lived with his parents and his normal expenditures and living costs were relatively modest. So, I think that if Startline had found out more about Mr B's living costs this would not have made a difference to the lending decision. So, I've looked to see if it should have been clear to Startline that Mr B did have a significant amount of debt, and this would have caused a problem with him repaying the new finance.

Mr B has provided an up-to-date copy of his credit report. As this also shows historic data, I'm satisfied this will give a good indication of what Startline would've likely seen on the credit file it obtained when it considered his hire purchase application.

Mr B has also provided copies of his bank statements (depending on the bank account) for the period August 2019 to November 2020, the statements for his 'main account' cover April to July 2020. While I wouldn't have expected Startline to have asked Mr B for copies of these, I'm satisfied that the statements would give a good indication of what Startline would likely have taken into consideration had it asked Mr B to verify, or provide more information about, his income and committed expenditure during that specific period.

The bank statements and the credit report, as our Investigator outlined, show that Mr B did have a significant amount of other debt. This is broadly as follows:

- He had around £7,500 outstanding on his credit cards and a mail order account. Our investigator said the minimum payment for these would likely to be just under £400 a month. This doesn't seem unreasonable.
- His other fixed payment lending commitments had total repayments of just under £400 a month.
- So, Mr B was already likely spending about £750 a month (as a minimum) to these two forms of credit.
- Mr B was frequently using short term and high-cost credit at the time he started this hire purchase agreement. In the month before this agreement started, he paid about £700 to short term and high-cost lenders and received loans of around £800 from the same type of lender.
- So, he would have to repay this, and presumably any other outstanding loans he had, in the very near future. And these repayments could be higher than his income.

It's clear from the credit report and the bank statements why Mr B's debt became unmanageable a few months afterwards. And I think if Startline had made proportionate checks it would have identified the risk of this and not lent to him.

In summary I think Mr B's existing credit made it unlikely that he would be able to sustainably repay the new hire purchase agreement. It seems that Mr B already had monthly credit commitments that were likely to be either around or above his income. I don't think he would have enough left over to sustainably repay the new lending and his living costs. Startline would have seen this if it had made proportionate checks and so it now needs to put things right.

#### Mr B's health situation

Mr B has provided evidence of how his work situation (related to the Covid-19 pandemic) affected his mental health and caused him related problems. I have looked at this, but I don't

need to refer to it in this decision. The evidence I have about his financial situation is enough to uphold the complaint. I will say that I do hope that things have improved for Mr B.

Did Startline act unfairly or unreasonably in some other way?

I haven't seen anything to make me think Startline acted unfairly or unreasonably in some other way.

**Putting things right**

Mr B made use of the credit facility Startline provided, and he purchased a car with this. So, it's fair that he pays the car price. However, as Startline shouldn't have approved his loan application. So, I don't think it's fair that he should pay any interest and charges. So, Startline should refund these, with interest.

Startline should:

- refund anything Mr B paid above the cash price of the car of £12,587;
- apply 8% simple yearly interest on the refund, calculated from the date Mr B made the overpayments to the date of the refund<sup>†</sup>; and
- remove all adverse entries relating to this agreement from Mr B's credit file.

<sup>†</sup>HM Revenue & Customs requires Startline to take off tax from this interest. Startline must give Mr B a certificate showing how much tax they've taken off if he asks for one.

**My final decision**

For the reasons explained, I uphold Mr B's complaint about STARTLINE MOTOR FINANCE LIMITED. STARTLINE MOTOR FINANCE LIMITED should put things right by doing what I've said above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 6 November 2024.

Andy Burlinson  
**Ombudsman**