

The complaint

Ms C has complained that Startline Motor Finance Limited (“Startline”) acted irresponsibly when it provided her with car finance in February 2017.

Ms C is represented by a complaint management company, for the sake of clarity when I refer to Ms C I mean both her and her representative.

Background

Ms C applied for car finance with Startline in February 2017. At the time she was living with her parents, working full time and had two existing credit facilities she was repaying. She also had two credit accounts that had previously defaulted and so she was making repayments to debt collectors in regard to those debts. She has said that at the time she took out the finance agreement she was already struggling financially, relying on an overdraft facility each month and that the repayments to Startline were never affordable. She says if Startline had completed sufficient checks at the time she applied for the credit it would have realised she was already over indebted and wouldn't have agreed to provide her with the agreement. She's asked that it refund all interest and charges she paid during the term of the lending.

Startline responded to Ms C's complaint explaining that it was a 'near prime lender' which means that it lends to consumers who have lower credit ratings than prime lenders do. So, it didn't think the fact that Ms C had defaulted on previous credit obligations was an automatic reason to decline her application. It says that it completed proportionate checks as expected and that following a review of Ms C's most recent bank statement, along with an income and expenditure form, it was satisfied that she had sufficient disposable income each month to cover the repayments. So, it didn't think it had made an error providing her with the credit and it didn't uphold her complaint.

Unhappy with Startline's response Ms C brought her complaint to this service. One of our investigators looked into it already. He reviewed some of Ms C's bank statements from the time she applied for the finance and concluded she had less disposable income than Startline had calculated she did. In fact, by his calculations Ms C didn't have sufficient income to cover the monthly repayments due, and so he didn't think the lending was affordable. So, he upheld the complaint and asked Startline to refund all the interest and charges added to the agreement.

Startline disagreed with the investigator's findings and asked to review the statements he had taken into consideration. Having done that it disputed the amounts he had calculated and said that it still thought Ms C had sufficient disposable income each month to cover her repayments. It repeated that it had carried out sufficient checks as per the rules that apply to lenders and asked for an ombudsman to consider the complaint again, and so it's been passed to me for consideration.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable

in the circumstances of this complaint.

Having done so I agree with the findings of our investigator and am upholding Ms C's complaint.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, the total cost of the credit and what it knew about the consumer at the time of application.

Ms C borrowed £8,098 and had to repay a total of £12,416.20 over 60 months which worked out at £206.77 per month for the term of the agreement.

Startline has said that at the time Ms C applied for the credit agreement it completed all necessary checks including reviewing her most recent bank statements and credit file to understand her existing credit commitments. Having done so it calculated that her average monthly take home pay was approximately £1,450 and she had two active credit accounts with a combined outstanding balance of just over £2,620. In addition, she was repaying approximately £267 to the defaulted accounts each month. So, it believed she had more than sufficient disposable income to cover the cost of the lending. However, it was unable to provide us with the evidence of the checks it completed, although it did include some of the calculations it relied on in its submissions.

Given the fact that Ms C already had two defaulted accounts and was entering a long-term credit agreement with Startline I would have expected it to run more thorough checks than it has said it did. I say this because given Ms C's credit history there was a real risk she would struggle to meet the ongoing monthly repayments over the entire term of the lending.

As mentioned above there are no fixed checks that a business has to do when considering whether to lend to a consumer. But reviewing bank statements is often a quick way to get an understanding of how someone is managing their finances on an ongoing basis. Ms C has provided us with bank statements for the four months prior to taking out the lending with Startline. These show that she had regular fixed outgoings that hadn't been included in Startline's monthly estimates, including monthly overdraft costs and additional living expenses.

Ms C submitted her own income and expenditure form which detailed her actual monthly costs at the time the lending was taken out. Our investigator considered this, alongside her bank statements, and agreed they showed a more realistic representation of Ms C's finances at the time. And based on that information he summarised that Ms C's average monthly disposable income, prior to taking out the finance with Startline, was approximately £105. Which meant that she didn't have sufficient income to cover the cost of the lending.

Startline disputed these figures and argued that some of the outgoings considered by our investigator, were non-essential spending and shouldn't have been included. It repeated that it had done sufficient checks and was satisfied that Ms C had at least £570 of disposable income each month prior to taking out the agreement with it. So, it still believed it was affordable to her. It also noted that throughout the term of the agreement, which ended in 2022, Ms C had made all her monthly repayments in full and on time. So, it didn't think there was sufficient evidence to show it was unaffordable for her.

I've reviewed the figures provided by our investigator and agree with his calculations for the reasons he set out already. I don't think that just because Ms C was living with her parents it should be assumed she had no regular cost of living expenses to be met. And I don't think the calculations provided by Startline genuinely reflect how much disposable income she had. I also disagree with the assumption that because she didn't miss any payments it automatically follows the agreement was affordable to her.

Therefore, I agree with the investigator's findings that Startline should have done more thorough checks than it did in 2017 before providing Ms C with the credit. If it had done I think it would have realised she was already over extended and struggling to manage her existing credit obligations effectively and it wouldn't have provided her with the credit agreement. And for those reasons, I'm upholding her complaint.

Putting things right

Ms C repaid the agreement in full at the end of its term in 2022. Therefore, in order to put things right Startline should:

- Refund any payments Ms C has made in excess of £8.089, representing the original cash price of the car. It should add 8% simple interest per year* from the date of each overpayment to the date of settlement.
- Remove any adverse information recorded on Ms C's credit file regarding the agreement.

*HM Revenue & Customs requires Startline to take off tax from this interest. Startline must give Ms a certificate showing how much tax it's taken off if she asks for one.

My final decision

For the reasons set out above I uphold Ms C's complaint against Startline Motor Finance Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms C to accept or reject my decision before 11 October 2024.

Karen Hanlon
Ombudsman