

The complaint

Mr T complains that Mitsubishi HC Capital UK PLC trading as Novuna Personal Finance lent irresponsibly when it approved his loan application.

What happened

In July 2021, Mr T applied for a loan of £1,500 with Novuna. In his application, Mr T said he was employed with an income of £28,000 and living with family. Novuna carried out a credit search and found Mr T had around £19,500 of unsecured debts with other businesses. No missed payments or other adverse information was found on Mr T's credit file. Novuna says it also used the credit reference agencies to verify the level of income being paid into his bank account each month.

Novuna used Mr T's existing debt repayments and applied estimates for his living costs when assessing the loan application. Novuna says it calculated that Mr T had around £595 a month as disposable income after his existing commitments and new loan payment were met. Novuna approved the loan with monthly repayments of £78.15 a month.

Earlier this year, representatives acting on Mr T's behalf complained that Novuna lent irresponsibly when it approved his loan application. Novuna issued a final response on 16 May 2024 but didn't uphold Mr T's complaint. Novuna said it had carried out the relevant checks before approving Mr T's loan and didn't agree it lent irresponsibly.

An investigator at this service looked at Mr T's complaint. They weren't persuaded that Novuna lent irresponsibly and said the checks it had completed showed Mr T's loan payments were sustainable. The investigator didn't uphold Mr T's complaint. Mr T's representatives asked to appeal and said that in the month before the loan was approved in July 2021 he'd gambled over £1,800. The representatives said Mr T was taking out loans to use for gambling. The representatives thought that if Novuna had asked to see Mr T's bank statements they'd have seen he had a gambling problem and declined the application. As Mr T's representatives asked to appeal, his complaint has been passed to me to make a 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.

Before agreeing to lend, the rules say Novuna had to complete reasonable and proportionate checks to ensure Mr T could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;

- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

When Mr T applied, he provided details about his circumstances including income and residential status. Mr T said he was earning £28,000 a year and living with family. No rent was declared, but I can see that in its income and expenditure assessment Novuna used a rent figure of £604 for underwriting purposes. I understand no other deductions were made for other essential living costs. But, I think it's fair to say that neither Mr T or his representatives have advised he was renting or had higher living costs at the time. And I'm satisfied that by using an estimated rent figure of £604 Novuna was using an outgoings figure that was reasonable for someone who was living with family.

I also think it's fair to note that Novuna carried out a credit search so was aware of Mr T's existing commitments and factored them into its lending assessment. Mr T's existing debt was reasonably high when compared against his income, but I'm satisfied Novuna had an accurate picture of his monthly repayments and factored them into its lending assessment.

The information Novuna had available indicated Mr T would've had around £673 available to make repayments. Once Novuna's monthly repayment was made, Mr T had around £595 available. I'm satisfied that showed Mr T had a reasonable buffer in terms of his disposable income and that the new loan repayments of £78.15 appeared affordable.

Mr T's credit file didn't include any adverse information or recent arrears. I can see one account was opened in months before Mr T's application was made but I haven't seen anything that would've indicated to Novuna that he was borrowing at an unsustainable rate.

I note the representatives point that Mr T was gambling heavily during this period. But as I don't think there were grounds for Novuna to have asked Mr T for additional evidence like bank statements, I'm satisfied it wasn't aware of his gambling history. As a result, I'm unable to agree Novuna acted unfairly by approving the loan.

Taking all the available information into account, I'm satisfied the level and nature of checks Novuna completed were reasonable and proportionate to the application Mr T made. I haven't been persuaded that Novuna needed to go further by taking a more comprehensive approach, like requesting bank statements, before approving Mr T's application. And I'm satisfied that based on the information Novuna had, the decision to approve Mr T's application was reasonable. I'm sorry to disappoint Mr T but I haven't been persuaded that Novuna failed to carry out reasonable checks or that it lent irresponsibly.

I've considered whether the business acted unfairly or unreasonably in any other way including whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Novuna lent irresponsibly to Mr T or otherwise treated him unfairly. I haven't seen anything to suggest that Section 140A or anything else would, given the facts of this complaint, lead to a different outcome here.

My final decision

My decision is that I don't uphold Mr T's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 30 October 2024.

Marco Manente
Ombudsman