

The complaint

Miss R complains that Specialist Motor Finance Limited (SMFL) was irresponsible in its lending to her. She wants all interest, fees and charges she paid under her hire purchase agreement refunded along with statutory interest.

What happened

SMFL provided Miss R with a hire purchase agreement in June 2021 to finance the acquisition of a car. Miss R paid an initial deposit and received credit of around £8,229. The total amount repayable under the agreement was around £16,131 with Miss R being required to make monthly repayments over 60 months of around £249. Miss R says that this was a large amount of credit, and she had a poor credit rating at the time. She said that her income and expenses should have been verified and had this happened SMFL would have rejected her application. She said that she has had to take out further loans and use her maximum credit card limits because of this lending.

SMFL issued a final response to Miss R's complaint dated 23 May 2024. It explained its position as a lender to customers that may have demonstrated poor financial performance or have a limited credit profile. It said that it assessed applications for finance based on a bespoke scorecard. It explained that Miss R's application recorded her as being employed with net monthly income of £1,700 and living with parents. A credit check showed that Miss R had 10 active accounts all of which were up to date, 26 settled accounts and two defaults.

SMFL verified Miss R's income using her payslips and this confirmed an income of around £1,980. Information from the credit reference agencies and other third-party sources were then used to assess Miss R's expenses. It included a buffer of £100 and said that after this Miss R had monthly disposable income of around £640. It said that based on its calculations the monthly repayments under the hire purchase agreement of around £249 were affordable. SMFL said that Miss R maintained the payments under the agreement until she settled it early in February 2023.

Our investigator initially upheld this complaint. However, following receipt of further information from SMFL she issued a second view not upholding the complaint. Our investigator thought that SMFL should have carried out further checks to identify Miss R's non-discretionary expenditure. But she found that had this happened, the agreement wouldn't have been considered unaffordable.

Miss R didn't accept our investigator's view. She said she had explained that she had a gambling addiction and that this could be seen on her bank statements and that her net monthly income was £1,725. She said her credit score has suffered as a result of this agreement as she had to borrow more to recover financially.

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.

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, and the total cost of the credit.

Before providing finance to Miss R, SMFL gathered information about her employment, income and residential status. Miss R said she was employed with a net monthly income of £1,700 and was living with parents. SMFL verified Miss R's income through her payslips which showed a net monthly income of £1,980. A credit check showed that Miss R had 10 active accounts which were up to date and two defaults. Miss R had also missed payments on her loan and a payment of her credit cards in the previous 12 months although the credit results showed these accounts had been brought up to date.

SMFL has explained that it provides lending to customers who may have experienced previous financial issues. While I do not find that the results of Miss R's credit check were such that the lending shouldn't have been provided, I think that they should have raised concerns that meant further checks took place. I say this because Miss R had defaults recorded and missed payments recorded within the previous year. She also had outstanding credit balances of around £11,800 at the time, which was a substantial amount compared to her income. SMFL verified Miss R's income, but I think it also should have carried out further checks to fully understand Miss R's actual expenses (rather than relying on estimates) to ensure that any new lending would be sustainably affordable for her.

SMFL wasn't required to request copies of Miss R's bank statement but as I think it reasonable that it would have asked about Miss R's expenditure, I have used the information contained in Miss R's bank statements to assess what SMFL would likely have identified had further questions been asked. Based on Miss R's bank statements and the other information she has provided, I can see she was making payments for rent, credit commitments, car costs, communications contracts as well as general living costs such as fuel and food. However, taking all of this into account, and noting that Miss R settled her previous hire purchase agreement with the new hire purchase agreement, I do not find that further checks would have shown the new agreement to have been unaffordable.

I note Miss R's comment about her net monthly income but as this was verified from her payslips, I find it reasonable that SMFL relied on the information it received. Having looked through Miss R's bank statements these support an average net income for the three months leading up to the finance being provided of £1,947, which is in line with the amount SMFL used in its assessment.

I also note Miss R's comment about having a gambling addiction. While I have considered Miss R's testimony, I have no evidence that SMFL was aware of this at the time of lending and as I do not have anything to suggest that further questions would have alerted SMFL to this issue I do not find I can say this was a reason not to provide the finance.

I've also considered whether SMFL acted unfairly or unreasonably in some other way given what Miss R has complained about, including whether its relationship with Miss R might have been viewed as unfair by a court under s.140A Consumer Credit Act 1974. However, for the reasons I've already given, I don't think SMFL lent irresponsibly to Miss R or

otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 11 December 2024.

Jane Archer
Ombudsman