

Complaint

Mr W complains that Toyota Financial Services UK PLC (trading as “Redline” Financial Services) unfairly entered into a hire-purchase agreement with him. He’s said that the agreement was unaffordable and the finance therefore shouldn’t have been provided to him.

Background

In November 2023, Redline provided Mr W with finance for a used car. The cash price of the vehicle was £15,999.00. According to the agreement itself, Mr W didn’t pay a deposit and borrowed the entire amount required to complete his purchase by entering into a hire-purchase agreement with Redline.

The agreement had interest, fees and total charges of £5,341.68. The total amount to be repaid of £21,340.68 was due to be repaid by 48 monthly instalments of £308.66 followed by a final payment of £6,525.00, which Mr W has to pay if he wants to keep the vehicle.

In February 2024, Mr W complained that the agreement was unaffordable and so should never have been provided to him. Redline wasn’t able to issue its final response within the eight weeks it had to do so. As Mr W was unhappy at this, he exercised his right to refer his complaint to our service.

Mr W’s complaint was considered by one of our investigators. She didn’t think that Redline had done anything wrong or treated Mr W unfairly. So she didn’t recommend that Mr W’s complaint should be upheld.

Mr W disagreed with our investigator and the complaint was passed to an ombudsman for a final decision.

For the sake of completeness, Mr W has raised a number of separate issues since the complaint has been with us – which include but is not limited to concerns about any commission Redline paid his motor dealer for arranging his finance. However, we’ve explained that our rules require that a respondent firm is first given the opportunity to look at any concerns in the first instance. That hasn’t happened for anything other than Mr W’s concerns about affordability.

We have therefore told Mr W he’ll need to contact Redline about everything else he’s complained about in the first instance. And this decision is solely focused on whether Redline acted fairly and reasonably when deciding to lend to Mr W.

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 Mr W’s complaint.

Having carefully thought about everything I've been provided with, I'm not upholding Mr W's complaint. I'd like to explain why in a little more detail.

Redline needed to make sure that it didn't lend irresponsibly. In practice, what this means is that Redline needed to carry out proportionate checks to be able to understand whether any lending was sustainable for Mr W before providing it.

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.

Redline says it agreed to this application after Mr W provided details of his employer and how long he'd been employed for. It says it also carried out credit searches on Mr W which showed that Mr W had little in active credit and what he did have was being managed well.

In its view, when reasonable repayments to the amount Mr W already owed plus the amount for this agreement, was deducted from Mr W monthly income it believed he would have enough left over to meet his living expenses and other commitments. On the other hand, Mr W says his previous difficulty with credit means that he should have been lent to.

I've thought about what Mr W and Redline have said.

The first thing for me to say is that while Mr W has referred to previous mortgage difficulties and other financial difficulties, I can't see that Redline was aware of this. It has provided screenshots of its credit checks which doesn't show this information and I'm also satisfied that the APR of 11.9% on Mr W's agreement supports Redline not being aware of this either.

Indeed, being aware of significant mortgage repayment issues is likely to have seen Mr W's APR being much higher and that's assuming that Redline would have been prepared to lend to Mr W at all in these circumstances, which, in my view, is far from certain. So while I accept that the copy of the full credit file Mr W has provided supports what he has said about having previous difficulties with credit, I'm satisfied that these weren't matters that Redline was aware of at the time it made its lending decision.

In any event, much like our investigator, given the total Mr W had to pay, the amount of the monthly payment as well as the length of time he'd have to make this payment for, I don't think that it was reasonable for Redline to assume that Mr W would have sufficient funds to meet his regular living costs. In these circumstances, I don't think that Redline's checks did go far enough.

As Redline didn't carry out sufficient checks, I've gone on to decide what I think Redline is more likely than not to have seen had it obtained further information from Mr W. Bearing in mind, the length of time of the agreement and the amount of the monthly payment, I would have expected Redline to have had a reasonable understanding about Mr W's regular living expenses as well as his income and existing credit commitments. It's worth noting that I would have expected similar checks to have taken place, even if Redline had been aware of Mr W's previous mortgage difficulties.

I've therefore considered the information Mr W has provided about his income and expenditure with a view to determining what proportionate checks are more likely than not to have shown.

I wish to be clear in saying that I'm not going to use the information Mr W has provided to carry out a forensic analysis of whether the repayments to his agreement were affordable. I say this particularly as Mr W's most recent submissions are being made in support of a claim for compensation and I need to keep in mind that any explanations he would have provided at the time are more likely to have been with a view to persuading Redline to lend, rather than highlighting any unaffordability.

Equally, what Redline needed to do was supplement the information it had on Mr M's credit commitments, with some further information on his actual living costs rather than rely on estimates or assumptions. And the information Mr W has provided does appear to show that when his committed regular living expenses and existing credit commitments were deducted from the income he was in receipt of at the time, he did have the funds, at the time at least, to sustainably make the repayments due under this agreement.

I know that Mr W has referred to having a number of previous car finance agreements. This was information Redline was aware of and I note that Mr W has referred to exercising his right to voluntary terminate at least one of these agreements. But I don't think that this in itself is an indication that Mr W was experiencing financial difficulty, or that he shouldn't have been lent to.

I say this as there are a variety of reasons why a consumer might choose to voluntarily terminate an agreement. One such reason might be financial difficulty, but another might simply be because they want to exit an agreement so they can instead enter into another agreement in order to purchase a different car. So I don't think that Mr W's previous agreements, in themselves, constitute a reason why Redline should not have lent to him.

Overall and having carefully considered everything, given what I think further enquiries into Mr W's living expenses are likely to have shown Redline, while I don't think that Redline's checks before entering into this hire purchase agreement with Mr W did go far enough, I'm satisfied that carrying out reasonable and proportionate checks won't have stopped Redline from providing these funds, or entering into this agreement.

In reaching my conclusions, I've also considered whether the lending relationship between Redline and Mr W might have been unfair to Mr W under section 140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I don't think Redline irresponsibly lent to Mr W or otherwise treated him unfairly in relation to this matter. And I haven't seen anything to suggest that section 140A CCA or anything else would, given the facts of this complaint, lead to a different outcome here.

I appreciate that this will be disappointing for Mr W. But I hope he'll understand the reasons for my decision and at least consider that his concerns have been listened to.

My final decision

My final decision is that I'm not upholding Mr W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 21 November 2024.

Jeshen Narayanan
Ombudsman