

The complaint

Ms A complains that Premium Plan Limited trading as Premium Plan was irresponsible in its lending to her. She wants all interest, fees and charges she paid on her hire purchase agreement refunded along with interest and compensation for the distress and inconvenience she was caused. .

Ms A is represented by a third party but for ease of reference I have referred to Ms A throughout this decision.

What happened

Premium Plan provided Ms A with a hire purchase agreement in June 2018 to finance the acquisition of a car. She says that the agreement had an excessively high interest rate and that the repayments under the agreement weren't affordable. Ms A says that adequate checks didn't take place before the lending was provided and if they had taken place Premium Plan would have seen she was consistently operating in her overdraft, didn't have enough disposable income to meet the repayments and had a recent essential bill returned unpaid. Ms A said she needed to take out further borrowing as a result of this lending.

Premium Plan issued a final response to Ms A's complaint dated 23 November 2023. It said that in May 2018, Ms A's details were passed to it from her broker. An initial call took place to check Ms A's details and to understand her budget. Ms A explained her maximum affordable monthly payment was £250. It said that an in depth affordability assessment using Ms A's bank statements was carried out. Ms A declared total monthly income (including salary, benefits and maintenance payments) of £2,377. Her monthly rent was recorded as £625 and other amounts for utilities, credit commitments and housekeeping were included. Ms A's credit check results were discussed including the defaulted accounts and payments towards these. Based on this Premium Plan calculated Ms A's total monthly expenses as £2118 leaving disposable income of around £259 which it said showed the agreement was affordable for Ms A.

Ms A referred her complaint to this service.

Our investigator thought the checks carried out before the lending was provided were reasonable. He noted that Ms A had defaulted accounts, including a default recorded around four months prior to the finance application but said this didn't necessarily mean that the lending shouldn't have been provided particularly if Ms A had sufficient funds to meet the repayments and associated costs of running the car. He found in this case that Ms A did have sufficient income to meet the repayments and didn't think there was anything in the information gathered by Premium Plan that meant the lending shouldn't have been provided.

Ms A didn't agree with our investigator's view. She disagreed with the inclusion of her benefits in her income calculation and thought a more nuanced assessment was needed. She said the disposable income was low given she was a mother with dependents and that if benefits weren't included and the costs of running the car were, it would have been clear that the agreement wasn't affordable. She also reiterated that she was operating in her overdraft at the time and was struggling to meet her other commitments. She said her recent default

showed her financial fragility and should have raised concerns about providing her with further debt.

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 the finance to Ms A, Premium Plan undertook an income and expenditure assessment with Ms A and received copies of her bank statements for the previous four months. A credit check was also carried out and questions asked about her defaulted accounts and payments made towards these. As Premium Plan gathered information that gave it a clear understanding of Ms A's financial situation at the time of the lending, I think it did carry out reasonable and proportionate checks.

However, just because I think proportionate checks took place, this doesn't necessarily mean that I think the lending should have been provided. To assess that I have looked through the information available to Premium Plus through its checks to see if these raised concerns that the lending wasn't sustainably affordable for Ms A or any other issues that would suggest the lending shouldn't have been provided.

Ms A's credit check showed that she had £1,017 in outstanding balances with two active accounts. In the previous 12 months she had two accounts recorded as delinquent with one defaulted. The default was recorded around four months prior to the finance application. Ms A also had two other historic defaults. Ms A had no records of bankruptcy or county court judgements. I also note the comment about Ms A operating in her overdraft and having a returned payment. While I do not find that this meant the lending shouldn't have been provided, I think it did mean that it was particularly important that Premium Plan had a clear picture of Ms A's circumstances to understand whether she would be able to sustainably repay any new lending.

The income and expenditure assessment showed that Ms A had a monthly salary of £1,433 and also received working tax credits and child benefit totalling £182.30 a week. She also received £150 each month maintenance from her child's father. These amounts were supported by Ms A's bank statements. This gave total income of around £2,377. I note the comment made about the inclusion of benefits in the assessment but as Ms A was receiving the working tax credits to support her income and the child benefit to assist with her costs, I find it reasonable that these were included.

Ms A was asked about her expenses. Amounts were included for her rent, utilities (water, energy, TV / phone /internet), credit commitments (including amounts for her defaults even though Ms A had said she wasn't paying towards these, account fees and charges and average payments to her parents even though Ms A had said these payments would end if she received this finance). The cost of the new hire purchase agreement was included along with amounts for the cost of running the car (covering maintenance, tax, insurances and fuel) housekeeping, clothing / footwear and a £50 contingency amount. This gave total monthly

expenses of around £2,118. Having looked through Ms A's bank statements I find this a reasonable assessment of her expenses.

Based on Ms A's monthly income and expenses she was left with monthly disposable income of around £259. I note the comment that this is a low amount of disposable income but as the income and expenditure assessment took into account costs including household costs and the costs of running the car and included the £234 of payments to family that Ms A had said would stop, payments towards Ms A's defaulted accounts which she said she wasn't making and a £50 contingency, I do not find I can say that the remaining disposable income meant that the lending shouldn't have been provided.

So, taking everything into account, I find the checks carried out before the hire purchase agreement was provided to Ms A were reasonable and as these suggested the repayments were affordable, I do not find I can say that Premium Plan was wrong to provide this finance.

I note the comment made about the interest rate applied to the agreement but as this information was available to Ms A before she agreed to the agreement terms, and the agreement also included the total cost of the credit and monthly repayment amounts, I find Ms A was given the information she needed to make an informed decision. Had she not been happy with this after receiving the agreement then she could have exercised her right to withdraw.

I've also considered whether Premium Plan acted unfairly or unreasonably in some other way given what Ms A has complained about, including whether its relationship with her might have been unfair under s.140A Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Premium Plan lent irresponsibly to Ms A 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 Ms A to accept or reject my decision before 10 December 2024.

Jane Archer
Ombudsman