

The complaint

Mr T complains that Volkswagen Financial Services (UK) Limited (VWFS) was irresponsible in its lending to him. He wants all interest, charges and fees paid refunded along with interest as well as compensation for the stress and inconvenience he has been caused.

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

What happened

Mr T entered into a hire purchase agreement with VWFS in September 2018 to finance the acquisition of a car. Under the agreement he was required to make 48 monthly repayments of around £398 followed by a final payment of £6,600. He said that VWFS didn't carry out reasonable creditworthiness or affordability checks before the agreement was provided and that had appropriate checks taken place his application would have been declined. He said that the provision of the hire purchase agreement has caused him financial detriment.

VWFS issued a final response to Mr T's complaint dated 24 June 2024, saying that applications for finance are credit scored and part of this process includes an affordability check. It said it was reasonable for it to rely on Mr T's confirmation of employment and that at the time of Mr T's application, his credit was being managed responsibly with no signs of financial stress. It noted that Mr T had said he was living at home with parents. VWFS confirmed that Mr T's agreement was terminated in March 2020.

Mr T referred his complaint to this service.

Our investigator acknowledged the difficult situation Mr T was experiencing and considered the impact his financial situation was having on his health.

When assessing Mr T's complaint, our investigator considered the information gathered through VWFS's checks and said the credit check didn't raise concerns. She noted that Mr T had existing credit commitments which, if fully utilised would require monthly repayments of around £235. Mr T had said he was living at home and paying £100 towards his housing costs. She thought that, in this case, it was reasonable for VWFS to rely on the information it had received and as this showed the loan repayments to be affordable for Mr T she didn't uphold this complaint.

Our investigator said that Mr T made his payments up to December 2019. After a period of arrears VWFS tried to contact Mr T but there was no response. Given this she didn't think it had acted unreasonably by taking further action to terminate the agreement.

Mr T didn't accept our investigator's view. He said there hadn't been independent verification of his financial circumstances and that the view relied on information provided by VWFS. He said he had a low income at the time and the repayments accounted for around 23% of his gross monthly income (before including the costs of running a car). He said he was paying £300 a month for rent and this later increased to £500 to repay a family loan. He also said that the assessment didn't consider how his expenses would increase if he moved out of the

family home. Mr T said his bank statements showed that at the time of the lending he was paying several other creditors and facing an overwhelming debt burden.

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.

I am sorry to hear of the difficult time that Mr T has been experiencing. But for me to uphold this complaint I would need to be satisfied that VWFS had done something wrong by providing the finance, or otherwise treated him unfairly.

Before the finance was provided, VWFS asked Mr T about his employment and residential status. He said he was employed full time and was living with parents, paying £100 a month rent. VWFS said that Mr T's monthly net income was estimated as £1,227 based on credit reference agency information. A credit check was carried out which showed Mr T had no defaults or county court judgements. It also noted that Mr T had a previous agreement with VWFS that he had managed well.

I have looked at the information available to VWFS at the time of application, and while I note that Mr T had maintained his previous agreement well, as the new agreement was for a higher monthly amount (around £398 a month compared to £271) VWFS needed to ensure that the higher repayments would be sustainably affordable for Mr T.

VWFS carried out an income check with the credit reference agency which gave a net monthly income of £1,227. This meant the monthly repayments of around £398 accounted for a significant portion of this and so I think it would have been reasonable to have confirmed Mr T's monthly net income. Had this happened, VWFS would have identified that Mr T's monthly net income in the months leading up to the agreement was higher than it had identified at around £1,460.

The credit check results, didn't raise any concerns about how Mr T was managing his existing credit commitments, but it did show that he had several credit cards. While he wasn't utilising the credit limit in full on these credit cards, he had outstanding balances of £3,831. While I note the comment Mr T has made about a loan from family (and I can see this in his bank statement) I cannot say whether or not he would have disclosed this (or his expected repayment of this) and in this case I find it reasonable that VWFS based the assessment of Mr T's credit commitments on the results of the credit check. These showed that Mr T's existing credit commitments (based on the full utilisation of the credit cards) resulted in monthly repayments of around £235.

While Mr T has said he was paying £300 for rent, in the application he included a figure of £100. So, I find it likely that had he been asked about this as part of the assessment he would have said the number he had disclosed in his application. However, even if Mr T had declared a monthly rent of £300, I do not find that this would have resulted in the agreement being considered unaffordable. I say this because based on a monthly income of £1,460,

credit commitments of £235, rent of £300, and communication payments of £150 (shown in Mr T's bank statements), Mr T would be left with disposable income of around £377 after making the repayments of around £398 due on the new VWFS agreement. While Mr T did have the costs of running the car, looking through his statements he was making limited payments for other general living costs. Therefore, I do not find that I can say that further checks would have shown the agreement to be unaffordable.

While I do not underestimate the impact the stress of the issues raised in this complaint have had on Mr T, in this case, I do not find I can say that VWFS was wrong to consider the agreement as affordable. I also do not find that the other evidence provided suggested that the agreement shouldn't have been provided for any other reason.

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

Jane Archer
Ombudsman