

## **The complaint**

Ms L complains that Honda Finance Europe Plc (Honda) didn't sufficiently check she could sustain the repayments before they agreed to lend to her.

In bringing her complaint Ms L is represented by a third party. For ease of reading I will only refer to Ms L in my decision.

## **What happened**

In November 2017 Ms L acquired a car when she entered into a hire purchase agreement with Honda. The cash price of the car was £14,140, a deposit of £4,949 was paid so after interest and charges were applied Ms L in total had to repay £16,435.77. This was repayable over 44 months, 43 months at £134.86 with a final balloon payment of £5687.79. Ms L said Honda didn't check whether she could afford the lending and she'd struggled financially since. She complained to Honda.

As Honda didn't respond to the complaint Ms L has referred her complaint to us.

Our investigator said Honda hadn't shown what checks they did before agreeing to lend to Ms L. And so she considered Ms L's bank statements for evidence of her income and expenditure at the time of the agreement. As Ms L had sufficient disposable income to sustain the repayments under the agreement she said Honda hadn't acted unfairly in agreeing to lend to her.

Ms L didn't agree and asked for an ombudsman to decide.

## **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.

Having done so I'm not upholding this complaint. I appreciate this will disappoint Ms L, so I'll explain why.

The Financial Conduct Authority (FCA) sets out in a part of its handbook known as CONC what lenders must do when deciding whether or not to lend to a consumer. In summary, a firm must consider the consumer's ability to make repayments under the agreement without having to borrow further to meet repayments or default on other obligations, and without the repayments having a significant adverse impact on the consumer's financial situation.

There's no set list for what reasonable and proportionate checks are. But I'd expect lenders to consider the specific circumstances of the loan application. Whether or not the checks are proportionate depends on various factors, including the size and length of the loan, the cost of credit, and what Honda found.

Honda haven't provided any evidence of what checks they did or what they found. This doesn't automatically mean Honda shouldn't have lent to Ms L as I need to consider whether checks would have shown that the repayments weren't affordable for her. So in reaching my

decision I've considered the evidence provided by Ms L as this would most likely show her financial situation at the time of the lending.

I've looked at statements for Ms L's bank account leading up to her application to Honda I'm not saying Honda needed to look at Ms L's bank statements, but they provide a good indication of her income and expenditure at the time the lending decision was made.

Prior to the lending with Honda Ms L received around £15,000 into her bank account which she says she used to pay some of her existing credit commitments. Neither Ms L or Honda have provided a credit report for this period so I haven't seen the status of the credit commitments that Ms L paid. Ms L has provided bank statements from June 2017 to October 2017. From these I've seen one previous payment in June 2017 to a credit card for £2,200 following a transfer into the account from another of Ms L's bank accounts for the same amount. I haven't seen any regular payments being paid to any loans or credit cards other than the other one-off payments specifically taken around the time the £15,000 was put into Ms L's account.

On checking affordability its our approach to consider the three months prior to the lending. So, I've only considered Ms L's regular income and regular non-discretionary spending from her bank statements for the three months prior to the lending being agreed, August September and October 2017.

I can see from this that Ms L's income varied over the three months but on average her salaried income was around £1,000. Ms L also received regular payments of £208.33, twice in a month and a benefit payment each month of £217.85. This meant she'd available income on average around £1,634. There are also sporadic transfers into and out of the account to another of Ms L's bank accounts, so Ms L did have access to other funds.

Ms L's bank statements show she'd non-discretionary spending for housing costs, food, petrol, transport costs, insurance, media, medical plans and pet care. On average this amounted to around £800 a month, after factoring in the new lending of around £135, Ms L would have around £700 each month in disposable income.

Ms L has said that her discretionary spending wasn't taken onto account but CONC requires a lender to take reasonable steps to determine a customer's non-discretionary spending. And in accounting for Ms L's non-discretionary spending including the new lending with Honda I'm satisfied she would have had sufficient disposable income each month to allow for discretionary and unexpected costs.

Ms L said that prior to the lending she was showing signs of financial distress but I haven't seen anything that supports this. While she did on occasion use her overdraft facility this wasn't used consistently, and on those occasions when her overdraft was being used Ms L transferred funds from another account to clear the overdraft balance. Ms L has also commented that her transport costs for her car hadn't been factored in. But I disagree with this as her car tax, insurance and petrol costs are present on her bank statements and have been included in the assessment of her non-discretionary spending.

While I can't say Honda had done reasonable and proportionate checks before entering into this hire purchase agreement with Ms L I'm satisfied that based on the evidence I've seen Ms L had sufficient disposable income to sustain the repayments under the agreement. And so, I'm satisfied Honda didn't act unfairly towards Ms L when they agreed to provide the funds.

I appreciate that this will be disappointing for Ms L but I hope she'll understand the reasons for my decision and at least consider that her concerns have been listened to.

I've also considered whether Honda acted unfairly or unreasonably in some other way given what Ms L has complained about, including whether their relationship with her might have been viewed as unfair by a court under s.140A Consumer Credit Act 1974. But, for the reasons I've already given, I don't think Honda lent irresponsibly to Ms L or otherwise treated her 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**

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms L to accept or reject my decision before 20 December 2024.

Anne Scarr  
**Ombudsman**