

The complaint

Mr M complains that STARTLINE MOTOR FINANCE LIMITED was irresponsible in its lending to him. He wants all interest, fees and charges he paid under his hire purchase agreement refunded along with 8% simple interest and any adverse information recorded on his credit file removed.

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

What happened

Mr M was provided with a hire purchase agreement in May 2021 by Startline to finance the acquisition of a car. The agreement had a term of 60 months and Mr M was required to make 59 monthly repayments of around £200 followed by a final repayment of around £210. The total amount repayable was £12,982.40.

Mr M says that adequate checks weren't carried out before the finance was provided and had they been Startline would have realised that he had other debts outstanding and had taken out several loans in the months leading up to his application to Startline.

Startline issued a final response to Mr M's complaint in January 2024 explaining that it is a near prime lender which supports applicants who fall outside of the parameters offered by prime lenders due to a lower credit rating. It said that a credit worthiness assessment took place before the finance was provided and this showed Mr M was employed with a net monthly income of £1,877 and this amount was validated with a credit reference agency. It said Mr M's credit search showed he had existing credit commitments with monthly repayments of £662 as well as outstanding balances on credit cards. While Mr M had historic defaults it found his active accounts were all up to date. Startline said that based on its checks the lending was responsible.

Mr M referred his complaint to this service.

Our investigator noted the number of accounts Mr M had opened in the months leading up to his finance application and that these were primarily for short term lending which she thought could suggest some financial difficulty and should have prompted further questions. In this case she thought that Startline should have carried out further checks such as verifying Mr M's expenditure to ensure that the lending would be affordable and sustainable for him.

Our investigator considered what Startline would likely have identified had further checks taken place and found that Mr M's credit commitments were increasing substantially in the months leading up to his application to Startline. She said this resulted in Mr M's income and expenditure being roughly equal and so any further borrowing would put him into a deficit position. Because of this she didn't think the agreement should have been considered affordable for Mr M and upheld this complaint.

Startline didn't agree with our investigator's view. It reiterated that Mr M's declared net monthly income of £1,877 was validated. It noted our investigator's comment that further

checks of Mr M's expenditure should have been carried out and said that it used an affordability calculator to assess his application. It explained that deducting Mr M's credit commitment (£923.82) and the repayments due under the new agreement (£199.54) left Mr M with £753.64 income to cover his cost of living and discretionary spend. It said this amount was reasonable and based on Mr M's affordability (rather than including income and expenditure from his spouse). It said that its checks were proportionate and that it only had sight of Mr M opening four accounts (not eight) in the previous five-month period.

Starline then considered the information contained in Mr M's joint bank statements and thought our investigator's calculation of costs had been inflated. It calculated the joint income and expenses and found that Mr and Mrs M had over £1,100 to cover food and discretionary spending.

As a resolution hasn't been agreed, this complaint has been passed to me, an ombudsman, to issue a decision.

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 the finance was provided, Startline gathered information about Mr M's employment, income, marital status and residential status. It also carried out a credit search. Mr M declared that he was employed full time with a net monthly income of £1,877, was married and a homeowner. Startline validated Mr M's income with a credit reference agency.

Startline's credit check showed that Mr M had several historic defaults and while many had been settled he still had outstanding balances on some. I note Startline's comment about its position in the lending market and I accept that as these defaults were historic, they alone do not mean that Startline shouldn't have lent to Mr M. But I think that payments towards the defaulted balance needed to be considered as part of the affordability assessment and also that Startline should have had in mind that Mr M had experienced previous financial difficulties when considering his current circumstances.

Looking at the credit search data this showed that Mr M had several active accounts including multiple credit card accounts. While his active accounts were up to date, I note he had exceeded his credit limit on one credit card. Mr M had also taken out new loans in the months leading up to his application. Our investigator noted eight new accounts, but Startline's credit check showed four new accounts. While Startline was aware of a lower number of new loans being taken out, I still find this should have raised concerns. Taking out multiple loans in a short space of time (and looking at the information they appear to be short term loans), could be a sign of financial difficulty and given Mr M had experienced this previously, I think further questions should have been asked.

Therefore, in this case, I think that the results from Startline's credit check should have raised concerns and because of this it should have undertaken a thorough check of Mr M's

income and expenses to ensure it had a clear understanding of his financial situation before lending.

Startline validated Mr M's income and I find this reasonable. However, I think further information should have been gathered about Mr M's expenses. Startline wasn't required to request copies of Mr M's bank statements but as I think further questions should have been asked, I have considered the information these contain to understand what Startline would likely have identified had further questions been asked.

The account statements that have been provided are for Mr M's joint account with his wife. Given this, a reasonable approach to considering affordability would be to assess the joint income and joint expenses. Mr M's monthly income was £1,877 and his wife's around £1,650 giving a combined monthly income of around £3,527. The payments made to creditors (before the Startline finance was provided) totalled around £1,700 which was almost 50% of Mr and Mrs M's combined income. This amount had increased in recent months with new loans taken out and I think this should have raised concerns. Adding the credit commitments, housing costs, utilities, insurance, cost of running a car and general living costs such as food and fuel, gave total monthly costs of around £3,400. This meant that there wasn't sufficient disposable income to meet the repayments due under the new agreement.

I have also considered to the extent possible, affordability based on Mr M's individual income and expenses. I have relied on Mr M's credit report (cross referenced with Startline's credit check results to understand his credit commitments) and the bank statements to confirm the payments to these. These totalled around £1,150 of monthly credit commitments. Allocating 50% of the household costs (£850) to Mr M gives total monthly expenses of around £2,000 which is above his monthly income.

Taking all of the above into consideration, I think a thorough income and expenses assessment would have raised concerns about the affordability of the agreement. Adding to this that Mr M had taken out several short-term loans in the months leading up to the lending suggesting possible financial difficulties, I do not find that Startline should have considered the lending responsible.

I've also considered whether Startline acted unfairly or unreasonably in some other way given what Mr M has complained about, including whether its relationship with Mr M could have been unfair under Section 140A Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr M in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right

As I don't think Startline ought to have approved the lending, I don't think it's fair for it to be able to charge any interest or charges under the agreement. But as I understand that the agreement was settled so Mr M owned the car, I think it's fair he pays the cash price of the vehicle.

To settle Mr M's complaint, Startline should do the following:

- calculate how much Mr M has paid in total and retain £8,900 – as this was the value of the car at the time of purchase. Startline should refund any overpayments, adding 8% simple interest per year* from the date of payment to the date of settlement.
- remove any adverse information recorded on Mr M's credit file regarding the

agreement.

*HM Revenue & Customs requires Startline to take off tax from this interest. Startline must give Mr M a certificate showing how much tax it's taken off if Mr M asks for one.

My final decision

My final decision is that STARTLINE MOTOR FINANCE LIMITED should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 7 January 2025.

Jane Archer
Ombudsman