

The complaint

Ms S has complained that Volkswagen Financial Services (UK) Limited trading as Seat Finance ("VFSL") acted irresponsibly when it approved her for a car finance agreement in May 2023.

Background

Ms S took out a Personal Contract Purchase ("PCP") agreement with VFSL in May 2023 in order to obtain a car. She borrowed £34,345 and had to repay a total of £42,987.40 over 48 months. This gave her monthly repayments of £580.99.

Ms S has said the agreement was never affordable to her and that she had a very poor credit rating at the time she applied for the finance. She also said that from the start she had problems with the car and wanted to either return it or reduce the amount she had to repay to make it affordable. However just after Ms S brought her complaint to VFSL the car in question was stolen. A successful insurance claim was made and paid out approximately £27,665 to VFSL, which left Ms S liable for a shortfall of just over £7,132.

VFSL has said that it ran all the necessary affordability checks at the time of application and that the PCP agreement was affordable for Ms S. It appreciates she went into arrears after making just one monthly repayment but doesn't think it was wrong to provide the finance to her and didn't uphold her complaint.

Unhappy with VFSL's response Ms S brought her complaint to our service. I issued a provisional decision on 27 November 2024 explaining I was intending on upholding the complaint and setting out what I thought VFSL needed to do to put things right. I asked both parties to provide any additional comments or evidence they wanted me to consider by 11 December 2024.

Both Ms S and VFSL responded accepting the findings in that decision. As I've not been provided with anything new to consider my findings remain the same. For the sake of clarity I will repeat them below.

My findings

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, the total cost of the credit and what it knew about the consumer at the time of application.

VFSL has said that at the time of application it ran all the necessary and proportionate checks before approving Ms S' agreement. It states it did a basic income and expenditure calculation, and reviewed Ms S' credit file before considering whether or not to lend. Having reviewed that information, it assessed the repayments would be affordable for Ms S over the term of the agreement.

Looking at Ms S' circumstances at the time she applied for the credit she told VFSL that she was living at home with her parents, with no living expenses and in full time employment. In addition, her credit file showed only one recent missed payment on a previous settled loan, one credit card and one live loan. So, VFSL didn't think it needed to run any more checks as it believed there was sufficient evidence to show the lending would be affordable and sustainable for Ms S.

I disagree with VFSL on this point and think it should have completed more thorough checks than it did given the amount of money Ms S was borrowing and the term of agreement. VFSL has said that Ms S had an existing credit agreement with it for an older vehicle when she applied for this one and that previous agreement had been well maintained. However, the repayments on the previous agreement were £275 per calendar month whereas the repayments for the agreement taken in May 2023 were for over £580 per month so I don't think it's reasonable to imply because the former was affordable the latter would be as well.

Looking at Ms S' credit file from the time of application I can see she has one open credit card with a relatively low limit and one loan, taken less than six months earlier for £10,000. It had consolidated a previous loan, with a low monthly repayment of £22, which had a missed payment registered against it before it was settled early.

Ms S had already taken out a sizeable amount of new lending, within a relatively short space of time, and the fact that VFSL had gathered only basic information regarding her existing credit accounts and general financial situation. Having reviewed everything sent to us by the business for the time of sale I don't think the checks completed were sufficient and VFSL should have asked more detailed questions before approving the credit application.

There are no specific checks that the regulator requires lenders to do when arranging the sort of finance Ms S obtained through VFSL. In its response to our investigator's view (upholding Ms S' complaint), VFSL stated that he had applied the standards expected of mortgage providers when he said it should have asked Ms S for copies of her recent bank statements to get a better understanding of her finance commitments before approving the lending. I don't agree with VFSL on that point. In situations where more thorough checks are required lenders will often ask to see bank statements. Bank statements can give useful insight into how sustainable lending may be.

Therefore, given I think VFSL should have done more thorough checks than it did I don't think it is unreasonable to review Ms S' bank statements when considering whether or not the lending decision was appropriate.

Looking at the bank statements provided by Ms S I note there was a very high volume of gambling on the account at the time Ms S applied for the credit and in the months immediately beforehand she was consistently spending more than her entire monthly salary on gambling. This in itself should have given VFSL cause to reconsider any lending to Ms S given she was spending more than her entire declared disposable income on gambling each month. So, I think there would have been genuine concerns around the sustainability of the agreement even if it had initially looked to be affordable.

It is important to note that Ms S also received some large deposits into her account during this time period. She has explained these were linked to the sale of a property and as such

I'm satisfied they don't amount to reliable repeat income in that they weren't likely to happen again.

So, I'm satisfied that the checks run by VFSL were insufficient in this instance as the information that was gathered in May 2023 should have resulted in the business asking for additional information to assure itself that the lending would be genuinely affordable and sustainable. If it had done that I don't think it would have approved the lending for Ms S and I don't think it would have given her the credit. So, I'm intending on upholding her complaint on that basis.

I've also considered whether VFSL acted unfairly or unreasonably in some other way, including whether its relationship with Ms S might have been viewed as unfair by a court under s.140A Consumer Credit Act 1974. However, I've not seen anything that makes me think this was likely to have been the case.

Putting things right

When a business has made a mistake, as I believe VFSL has done in this instance, we would normally ask it to put the consumer back in the position they would have been in if that mistake hadn't occurred. However, in lending cases such as Ms S' that's not always possible because lending can't always be undone.

Ms S had use of the car between May 2023 and August 2023. She successfully repaid the first month owed on the agreement but didn't make any further repayments beyond that. After the car was stolen VFSL was able to recover £27,665 through the insurance claim but this left Ms S with a shortfall of £7,132.21 that still needed to be repaid.

I think, given Ms S did benefit from having the balance of her old agreement repaid by the promotional campaign, it's reasonable to ask her to pay the full monthly amounts owed for the time she had the car. So that means she would need to pay a total of £1,526.97 for the time she had the car. It is my understanding that Ms S did meet her first monthly repayment so there should be approximately £1,017.98 outstanding. I think Ms S should have to pay that amount, and not the full £7,132.21 VFSL says she owes. VFSL should speak to Ms S about an affordable repayment plan and treat her with forbearance and consideration.

Once the amount owed has been repaid in full VFSL should remove any adverse information linked to the agreement from Ms S' credit file.

My final decision

For the reasons set out above, and in my provisional decision of 27 November 2024, I uphold Ms S' complaint against Volkswagen Financial Services (UK) Limited trading as Seat Finance.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 8 January 2025.

Karen Hanlon
Ombudsman