

The complaint

Ms T complains that STARTLINE MOTOR FINANCE LIMITED (SMFL) was irresponsible in its lending to her. She wants all interest and charges she paid under the agreement refunded along with 8% interest.

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

What happened

Ms T took out a hire purchase agreement with SMFL in December 2018 to finance that the acquisition of a car. The total amount repayable was £12,061.40. Ms T paid a deposit of £500 and was required to make a first repayment of around £286 followed by 58 repayments of around £187 and a final repayment of around £436.

Ms T said that SMFL didn't carry out adequate checks before the finance was provided to ensure it was affordable for her and that the features of the agreement weren't fully explained. She believed that had adequate checks been undertaken her application for finance would have been declined. She said she had to borrow to pay the deposit and then struggled to maintain her repayments, needing to borrow more from friends. She said that making the payments on the agreement caused her stress and depression and she started to gamble. She raised a complaint with SMFL and then referred this to our service.

SMFL issued a final response to Ms T's complaint. It said that before the finance was provided it undertook a creditworthiness check and considered the affordability of the agreement for Ms T. It said that Ms T declared she was employed full time with a monthly net income of £1,500 and this was validated through a credit reference agency tool. Ms T said she was a tenant. A credit check was carried out which showed Ms T's active accounts to be up to date. It did reveal that Ms T had four historic defaults and two active county court judgments from 2016 and 2017. SMFL explained its position in the lending market and said that it does lend to consumers with adverse information on their credit file. Based on its checks it found the lending to be affordable for Ms T.

Our investigator noted the information received through SMFL's checks including the unpaid defaults on her credit file. She said it was unclear what Ms T's committed expenditure was and thought it reasonable that SMFL would have carried out further checks (such as further verification of Ms T's income and gathering details about her expenditure) to ensure it had a clear picture of Ms T's financial situation at the time.

Our investigator assessed the information contained in Ms T's bank statements for the months leading up to the lending to understand what further checks would likely have identified. She found Ms T's average monthly income was around £2,089 and her average non-discretionary costs were around £720. She deducted these costs from Ms T's income and also deducted amounts for Ms T's existing credit commitments, the payments required under the SMFL agreement, and an amount for the cost of running the car. Having done this she found that Ms T would be left with around £962 to cover her other general living and household costs. Given this she found that further checks would have shown the agreement

to be affordable.

Ms T didn't agree with our investigator's view. She provided further details of her costs and said that she provided for her family by paying for food and petrol. She said the defaults and county court judgments on her credit file showed a pattern of financial distress. She said that based on SMFL's income figure (£1,500) her essential spending (£1,209.89) this only left her with disposable income of £290.11. After her repayments due under the agreement this would leave her with around £103 a month and given her other financial obligations and reliance on credit this was effectively owed to other creditors. She noted our investigator had included her benefits in the calculation but said that these shouldn't be included as they were for specific support needs. She said that the lending was irresponsible and shouldn't have been provided.

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, SMFL gathered information about Ms T's employment, income and residential status. Ms T declared that she was working full time with a net monthly income of £1,500. This income figure was validated using a credit reference tool. Ms T said she was a tenant, but no further information was gathered from her about her rent or other expenses.

A credit search was undertaken which showed that Ms T had four defaulted accounts and SMFL has said that two county court judgments were also identified (one recorded in 2016 and one in 2017). The defaults were historic (default dates in 2014 and 2015) and Ms T was keeping her active accounts up to date. As the adverse credit information was historic and Ms T appeared to be managing her current credit commitments, I do not find that the credit check results alone meant the lending shouldn't have been provided. However, given the financial issues Ms T had previously experienced, I think it would have been reasonable to have carried out a thorough assessment of Ms T's financial circumstances, including further verification of her income and her expenses, to ensure that the finance was being provided responsibly.

SMFL wasn't required to obtain copies of Ms T's bank statements but given the checks I think would have been reasonable, I have looked through Ms T's statements for the three months leading up to the lending to understand what further checks would likely have identified.

Ms T's statements show that she was earning income and receiving benefits. Her earned income was above the amount she declared on her application. I note the comment Ms T has made about her benefits but as I am considering all regular income and expenses from her account, I find it reasonable to include the benefit receipts in the calculation. Based on this, Ms T's average monthly income was around £2,050.

Ms T was making monthly payments for rent, utilities, insurance and communication contracts. These averaged around £730 a month. Additional to this Ms T was making payments towards her existing credit commitments of around £85 a month. Deducting these amounts and the cost of the SMFL agreement from Ms T's average income would leave just over £1,000 for Ms T's general living costs and household expenses. I note the comment Ms T has made about paying for her family's food and petrol, but in this case, I think the disposable income noted above, would support the agreement being affordable.

Ms T has also said that the terms of the agreement weren't clearly explained. While I note this comment, the agreement set out the costs involved, and the amounts Ms T would need to repay and the other key terms. The agreement explained that Ms T had the right to withdraw within 14 days and so had she decided after entering the agreement that it wasn't what she wanted, she could have exercised this right.

I am sorry to hear of the difficult financial experience Ms T has faced and the impact this has had on her health. I don't underestimate the pressure she felt. However, I can only require SMFL to take into consideration the information available to it at the time, based on reasonable checks taking place. And as I find that the further checks I think were required wouldn't have identified the lending to be irresponsible, I do not find I can uphold this complaint.

I've also considered whether SMFL acted unfairly or unreasonably in some other way given what Ms T has complained about, including whether its relationship with Ms T might have been unfair under Section 140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think SMFL lent irresponsibly to Ms T 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 T to accept or reject my decision before 14 February 2025.

Jane Archer
Ombudsman