

The complaint

Miss K complains that Mercedes-Benz Financial Services UK Limited (MBFS) has unfairly refused her application to refinance her agreement with it.

What happened

In 2020, Miss K entered into a car finance agreement with MBFS to acquire a car. I don't have a copy of that agreement, but based on the information Miss K has provided, the terms of that agreement were that it would be repaid over four years at £286.96 with a final lump sum - 'balloon payment' - of £13,920 in October 2024.

In 2021, Miss K entered into an Individual Voluntary Arrangement (IVA). On 31 August 2024, Miss K obtained a quotation from MBFS to refinance the remainder of the contract (£14,583.36 at the time) over 60 months. However, when she asked to accept the quotation MBFS refused to go ahead with it.

In October 2024, Miss K complained to MBFS. She said her IVA administrator had consented to her being able to extend the agreement and was satisfied it would be affordable for her. She said she had made all payments to date, and it was unfair for MBFS to refuse the refinance. Miss K said she was reliant on the car for her day-to-day life.

MBFS looked into Miss K's complaint and issued a final response letter. It explained that any application it received was subject to a credit search whether an IVA was in place or not. It said she had not met its lending criteria and it could not consider her application while her IVA remained in place.

Miss K was unhappy with MBFS's response, so she referred her complaint to our service. One of our investigators looked into it. He said it was a matter for MBFS commercial discretion to decide who it was prepared to lend to and on what terms. He didn't uphold Miss K's complaint.

Miss K didn't accept our investigator's view of the complaint. As there was no agreement, the complaint has been passed to me for 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.

Lenders have to carry out reasonable and proportionate checks to satisfy themselves that an applicant for credit will be able to repay the finance requested sustainably. There isn't a set list of checks a lender must carry out, but most businesses will include a review of an applicant's credit file in that process. This enables them to see how the applicant has managed credit offered by other businesses and use that information to decide whether they are content with the level of risk presented. Businesses are free to decide what level of risk they are prepared to accept.

In Miss K's complaint, MBFS had been happy to agree to finance her acquisition of a car in 2020 based on her circumstances at the time. Miss K accepted the terms on which MBFS was happy to make the finance available, and that included the full repayment of it - or the return of the car - in October 2024.

When it came to the final couple of months of the contract, Miss K found she couldn't afford the balloon payment. The contract allowed her to return the car rather than make that payment, but she wanted to keep it. That being so, she asked MBFS to allow her to repay the remainder over five years.

MBFS was entitled to consider this to be a new application for credit. Afterall, it had anticipated being repaid in full by October 2024 or being able to sell the car to recoup its money. MBFS's approach to lending is to carry out a credit file search. When it did so, it found Miss K was in an IVA which indicates she'd had trouble repaying what she'd borrowed from other businesses – whatever the circumstances that led to that. So MBFS was entitled to reach a decision that it didn't want to lend to Miss K for another five years as she didn't meet its lending criteria.

Miss K has provided a letter from her IVA administrator saying it approves of her request to enter a finance agreement to spread the cost of the balloon payment. But that does not oblige MBFS – or any other lender – to agree to lend to her. That is a matter for the lender's judgment.

Miss K has also asked why her application was refused having been agreed initially at the end of August 2024. But the 'agreement' she refers to is actually a quotation and clearly says, *"This quotation does not constitute an offer to enter into an agreement."* It goes on to say if she wants to proceed with the quotation, a *"Finance Specialist will take your information and put a proposal through to [MBFS] for credit checking purposes"*. So, I think it's clear the quotation was not an offer, but rather an indication of what might be agreed subject to further assessment and a credit check.

I'm sorry to disappoint Miss K, but I don't think MBFS has treated her unfairly by refusing to refinance the agreement she took with it in 2020.

My final decision

My final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept or reject my decision before 2 September 2025.

Richard Hale
Ombudsman