

## The complaint

Mr C complains that Mitsubishi HC Capital UK Plc, trading as Novuna Personal Finance, irresponsibly lent to him.

## What happened

Mr C took out a 60-month fixed term loan for £9,500 from Novuna on 10 March 2023. The monthly repayments were £282.51 and the total repayable was £16,950.60.

Mr C says he already had £40,000 of debt and should not have been given the loan. A year after taking this loan he had to enter a debt management plan (DMP).

Novuna says its decision to lend to Mr C was responsible as he could afford the monthly repayments, and that it took reasonable steps to verify the information provided on his application. It noted that it stated the incorrect disposable income figure in its final response letter. Its affordability assessment showed Mr C would have £737.29 to cover his living costs, not £225.46.

Our investigator did not uphold Mr C's complaint. She said Novuna's checks were not proportionate but it could fairly have made the same lending decision based on better checks.

Mr C disagreed and asked for an ombudsman's review. He said the investigator's analysis was not accurate. He would have only £10.78 disposable income after taking on this loan which was not sustainable. And he may have consolidated debts with the loan, but the monthly repayment for this loan was higher than the contractual repayment on those credit cards. Besides, even if it had reduced his monthly costs that does not mean it was affordable.

I reached a different conclusion to the investigator so I issued a provisional decision. An extract follows and forms part of this final decision. I asked for both parties to provide any further comments or evidence for me to consider by 29 January 2025.

### *Extract from my provisional decision*

*Novuna asked Mr C for his annual income, employment status and residential status when he applied. It says it verified his income via the credit reference agencies, concluding his monthly net income would be £2,601.23. Based on his marital status it assumed he paid half of an estimated rent of £1,023.66, so £511.83. It carried out a credit check that showed he had £40,200 of debt and estimated monthly credit commitments of £1,070.23 that he was up to date with. He had no recent adverse data such as CCJs or defaults registered against him. Novuna concluded after these commitments and the repayments for this new loan he would be left with £737.29 to cover his other living expenses. It felt this to be reasonable for someone in his circumstances and so gave the loan.*

*I don't think these checks were proportionate given the value and term of the loan and Mr C's existing debt level. I think Novuna needed to carry out an income and expenditure*

*analysis based on actuals rather than assumptions and averages.*

*In cases like this we look at bank statements for the three months prior to application. I am not saying Novuna had to do exactly this but it is a reliable way for me to know what better checks would have most likely shown.*

*They show that Mr C's monthly net income was broadly as it understood - £2,688.52, that his rent was £725 a month and that he paid £600 a month into a household account to cover all fixed living costs. Novuna calculated his credit costs to be £1,070.23 but I think this is understated and should be £1,417.05. This service allocates 5% of outstanding revolving balances (here this was £17,341) to allow for repayment of interest and capital and to ensure there is no risk of a consumer falling into persistent debt. So Mr C did not have any disposable income – and this is prior to including some essential spend such as any grocery costs. So I don't think Novuna would have concluded Mr C could afford the loan had it completed better checks.*

*I have thought carefully about the fact the loan was for debt consolidation. But I think the data showed Mr C was already stretched and taking on nearly £17,000 more debt was not without risk of financial harm. His monthly credit commitments would be £1,229.56 (existing loan £550 + new loan £282.51 + repayment of £397.05 for his remaining revolving balances). So around 45% of his monthly income. At this level I think Novuna did not have the assurances it needed that giving its loan would not cause Mr C to borrow to repay or to suffer other financial harm. He went on to take two further loans in 2023 before entering a DMP in 2024.*

*It follows I think Novuna was wrong to lend to Mr C.*

I then set out what Novuna would need to do to put things right if I went on to uphold the complaint.

Mr C responded and accepted my provisional decision. Novuna did not reply.

### **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.

Novuna will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don't consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

As neither party sent any new evidence or comments for me to consider I have no reason to change the findings or outcome in my provisional decision.

It follows for the reasons set out above I find Novuna was wrong to give this loan to Mr C.

### **Putting things right**

I think it's fair and reasonable for Mr C to repay the capital that he borrowed, because he had the benefit of that money. But he has paid interest and charges on a loan that shouldn't have been provided to him.

So Novuna should:

- Refund all interest, fees and charges from the loan and treat all the payments Mr C

- made as payments towards the capital.
- As a capital balance will remain after reworking the account Novuna should work with Mr C and the administrator of his DMP to agree any revisions to his repayment schedule.
- Remove any adverse information recorded on Mr C's credit file in relation to the loan once the capital is repaid.

I also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Mr C 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.

### **My final decision**

I am upholding Mr C's complaint. Mitsubishi HC Capital UK Plc, trading as Novuna Personal Finance, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 27 February 2025.

Rebecca Connelley  
**Ombudsman**