

## **The complaint**

Ms M complains through a representative that Volkswagen Financial Services (UK) Limited ("VW") approved a finance agreement for her without carrying out sufficient affordability checks.

## **What happened**

This complaint solely deals with the hire purchase style agreement Ms M took for a used car in June 2019 through a credit intermediary. The cash price for the vehicle was £22,805.76 and no deposit was paid to finance this vehicle. However, Ms M had traded in her previous car and paid £3,000 to VW to settle the previous agreement she had.

If Ms M paid this hire purchase agreement in line with the credit agreement, then she would've repaid a total of £28,627.51. This was to be repaid through 48 monthly repayments of £389.87 followed by a final, optional payment of £9,903.75. The statement of account provided by VW shows the agreement was settled in September 2021.

VW issued a final response letter about Ms M's complaint, and it didn't uphold the complaint. Ms M's representatives then referred the complaint to the Financial Ombudsman.

Ms M's complaint was considered by an investigator who didn't uphold the complaint. VW had an understanding of Ms M's income and credit commitments it didn't know about her everyday living costs and so should've asked about them – considering the size of the repayment and the APR.

Ms M had provided her bank statements in the months leading up to the agreement being granted which the investigator looked at. But even if VW had reviewed these, the investigator concluded VW would've likely concluded the agreement was affordable for her.

Ms M's representative disagreed saying some of Ms M's expenditure would've been cash and so wasn't visible on the statements reviewed by the investigator – such as £240 per month for food (on average), £40 per month for after school clubs and around £130 per month on petrol. Finally, Ms M says she was shortly to finish university and that was going to lead to a change in income – so the student loan payments used by the investigator couldn't be relied upon.

These comments didn't change the investigator's mind and as no agreement could be reached the complaint has been passed to me to decide.

## **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.

We've explained how we handle complaints about irresponsible and unaffordable lending on

our website. And I've used this approach to help me decide Ms M's complaint. Having carefully thought about everything I've been provided with I'm not upholding Ms M's complaint. I'd like to explain why in a little more detail.

VW needed to make sure that it didn't lend irresponsibly. In practice, what this means is that VW needed to carry out proportionate checks to be able to understand whether any lending was sustainable for Ms M before providing it.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify that information – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low, the amount lent was high, or the information the lender had – such as a significantly impaired credit history – suggested the lender needed to know more about a prospective borrower's ability to repay.

It's also worth bearing in mind that for this agreement, VW would've been entitled to rely on the information Ms M provided and what it found out from its checks unless the results of those checks suggested there were inaccuracies.

VW was told that Ms M worked full time as a social worker. It doesn't look like that VW asked Ms M about her income, but it did use a credit reference agency to work out what Ms M's likely monthly income was. The check told VW her income was around £1,643 per month.

VW has shown that in terms of living costs it carried out a credit search (which I'll come on to below) to work out Ms M's existing credit commitments. It also says Ms M declared she was in rented accommodation, and this was costing her £350 per month.

It doesn't seem as if any other checks were made into the other day to day living costs Ms M may have had. But with a repayment amount of just under £390 each month, it looked as if Ms M had plenty of headroom to be able to afford her rent, the car and living costs.

VW conducted a credit search before granting the agreement and it has provided a copy of the results that it received. I've considered these results to in order to see whether VW was given any indication that Ms M was, or was likely to be, having financial difficulties at the time the agreement was granted.

Based on the credit file information VW has provided there was no adverse information reported on the credit file such as defaults, missed payment markers or County Court Judgements.

But it did know Ms M had a loan costing £100 per month, another credit agreement costing £87 per month, an insurance account costing £13 a month and a retailer account with a balance of £282. The credit file showed all of Ms M's existing accounts were being well maintained - there were no signs of any financial difficulties.

Ms M had an active VW agreement when the second one was granted – albeit the first one was settled before this agreement was started. That agreement had a monthly payment of around £255 per month and VW has said that all the payments had been made as expected, and so that may have given it added confidence that this agreement was affordable. Notwithstanding the new agreement had a higher monthly payment – but it was evidence of Ms M being able to maintain an agreement.

I appreciate, the loan may have appeared affordable to VW but I don't think that conclusion could be fairly reached when it seems Ms M's actual everyday living costs weren't considered – which given the monthly repayment and term ought to have been something VW investigated further. Like the investigator, I do think that before the loan was approved, VW needed to, at the very, least understand what Ms M's actual non-discretionary monthly outgoings were.

It could've gone about doing this a number of ways, it could've simply asked Ms M about her other non-discretionary living costs, asked for evidence from Ms M about her bills, or any other documentation it felt it may have needed. Or, as I've done here reviewed the bank statements Ms M has provided. This didn't, and doesn't mean that, VW had to undertake a full financial review of Ms M's circumstances, merely it just needed to obtain a better idea of what her living costs were.

It is also worth saying here that had bank statements been reviewed, with Ms M's salary as well as benefits and student loan payments her income did fluctuate slightly but at a minimum was around £2,100 per month. But it's worth saying here in the months before the loan Ms M's monthly income from the above was as high as £2,700.

I've thought about what Ms M's representatives has said about her income and some of it being made up of student loan payments and that these would be coming to an end – which meant her income was '*up and down*'. Ms M says the dealership was aware of her impending change – that she would no longer receive the student loan payments.

Ms M says that her income would drop, but given what I've seen from the bank statements, it seems that Ms M had sufficient disposable income to afford her repayments based on either the smaller amount VW calculated or based on the actual income she had received.

VW also had a fairly good idea of Ms M's existing credit commitments of around £200 per month. I've not counted her existing VW finance as this was to be settled. It was also reasonable for VW to have relied on the rent payment of £350 so I don't think it would've looked into these costs more closely either.

So before considering the bank statement, with VW's payment for the agreement, the rent and the existing credit commitments it already knew Ms M needed to spend £939 per month serving these commitments.

The bank statements show that Ms M had payments for TV subscription services costing £95, appliance insurances of £13 per month, utilities of around £140 and a regular payment for a lottery of £10 per month. These regularly costs come to around £260 – when added to the other costs that VW already knew about comes to around £1,200 per month.

So, whether VW would've used its own checked income, or the amount Ms M received into her bank account, I'm satisfied she was left with sufficient disposable income to cover any other living costs she had such as food and petrol.

But given what I've said above about VW not needing to conduct a forensic review of her bank statements – I do think had VW made some enquiries with Ms M about her living costs it would've likely concluded the finance was affordable for her.

I fully accept Ms M may have not been in the most stable financial position when she took the agreement with VW but even if further checks were carried out – given the limited nature of those checks and what VW may or may not have done, I can't fairly say that it would've discovered the agreement was unaffordable. And it still would've thought it was reasonable to have advanced this agreement. I am therefore not upholding the complaint.

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think VW lent irresponsibly to Ms M 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**

For the reasons I've outlined above, I am not upholding Ms M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 9 May 2025.

Robert Walker  
**Ombudsman**