

The complaint

Mr S complains that Mitsubishi HC Capital UK PLC was irresponsible in lending him two loans, because it didn't carry out proportionate affordability checks.

What happened

Mr S took out a loan with Mitsubishi HC Capital UK PLC, trading as Hitachi Personal Finance, in October 2020. He borrowed £1,500 over a term of 40 months. The monthly loan repayments were £51.01. Mr S repaid the loan in full early, in October 2021.

Mr S took out a second loan with Mitsubishi HC Capital UK PLC, this time trading as Novuna Personal Finance, in August 2022. He borrowed £10,000 over a term of 75 months. The monthly loan payments were £199.66. Mr S made all the monthly payments in full and on time until the most recent date for which we have payment information, which is August 2024.

In 2024, through a claims management company, Mr S complained that Mitsubishi had been irresponsible in lending him the loans. He said it hadn't carried out proportionate checks before lending and, had it done so, it wouldn't have granted the loans. Mitsubishi said it thought it had lent responsibly and Mr S could afford the monthly loan payments.

The complaint was referred to the Financial Ombudsman Service. Our Investigator concluded that Mitsubishi had carried out reasonable and proportionate checks before lending both loans. He didn't find anything to indicate that its lending decisions were unfair, so he didn't recommend that the complaint should be upheld.

Mr S didn't accept that conclusion and his representative asked for a review. They thought Mitsubishi should have done more to check that Mr S could afford the loans in the light of the level of his existing unsecured debt at the time of the first loan application.

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.

I've also considered relevant rules – including relevant sections of the Consumer Credit sourcebook – guidance, and good industry practice. Having done so, I've come to the same overall conclusion as the Investigator did, for much the same reasons.

In assessing Mr S's loan applications, Mitsubishi needed to take reasonable steps to ensure that, if it agreed to lend, it did so responsibly. In practice, this means it should have carried out proportionate checks to make sure that Mr S could afford to repay any money it lent in a sustainable way. These checks could take into account a number of different things, such as how much was being lent, the level of monthly payments and Mr S's income and expenditure. But there was no set list of checks Mitsubishi had to do.

Mitsubishi has provided details of the information Mr S gave it in his loan applications, together with the checks it carried out when deciding whether to lend. When he applied for the first loan in 2020, Mr S said his gross annual income was between £25,000 and £30,000. Mitsubishi's records show that it validated that income using information about Mr S's current account turnover from credit reference agencies and based its lending decision on a net monthly income figure of £1,861.80.

The net monthly income figure Mitsubishi used in its assessment was very close to Mr S's actual net monthly income at the time, based on the bank statements that have been provided in connection with this complaint. In September 2020 Mr S's net income from employment was £1,787.08 and in October 2020 it was £1,868.68.

Mitsubishi says, and its records from the time of the application for the first loan reflect, that Mr S had existing unsecured debt of just over £45,000 to which he was paying a total of just over £830 a month. He also had a mortgage with his wife, with monthly payments of just over £550, and Mitsubishi assumed he paid half of that amount each month since it was a joint mortgage.

The monthly loan payments to the first loan were just over £50, leaving Mr S with around £700 for other expenditure. Mitsubishi used averages to assess other likely expenditure for a borrower with similar circumstances to Mr S's, and concluded that about £700 each month for other expenditure was enough at the time of its assessment. It says there was no indication of financial difficulty from his credit file.

Mitsubishi's records show that it assessed Mr S's application for the second loan in 2022 in the same way. On this application Mr S said his gross annual income was £29,500. Mitsubishi based its lending decision on a net monthly income figure of £1,989.23 using data from credit reference agencies. Mr S's representative hasn't said that this figure was wrong or provided bank statements or other documents to confirm Mr S's income in mid-2022. In any event, I'm satisfied that Mitsubishi took reasonable steps to verify his income before lending.

At the time of the second application Mr S's unsecured debt, based on credit reference agency information, had reduced to just under £25,000 with total monthly payments of just over £550. The monthly joint mortgage payments had also reduced, to £470 between Mr S and his wife. After the monthly payments to the new loan of just under £200, Mr S was left with just under £1,000 a month for other expenses. Mitsubishi says there was no indication of financial difficulty from his credit file at the time of this application.

Having carefully considered all of this information, I consider that Mitsubishi carried out reasonable and proportionate checks in order to satisfy itself that Mr S could afford to repay both loans in a sustainable way. I don't find that its decisions to lend were irresponsible or unfair.

Mr S's representative has pointed to the level of Mr S's unsecured debt at the time of the first application in 2020 and says this should have prompted Mitsubishi to carry out more checks. I disagree. It took steps to verify his income and his expenditure on existing debts, and assessed how much disposable income he would be left with for day to day expenses. The amount of borrowing applied for and the resulting monthly payments were relevant considerations which Mitsubishi could take into account in its assessments. The first loan was fairly small, with monthly repayments of just over £50. And by the time of Mr S's second application he had not only repaid the first loan early, well before the end of the term, but he had also reduced the level of his unsecured debt significantly.

In all the circumstances, I don't think Mitsubishi acted unfairly and I don't therefore require it to compensate Mr S or take any other action to settle this complaint.

Finally, I've thought about whether considering this complaint more broadly as being about an unfair relationship under Section 140A of the Consumer Credit Act 1974 would lead to a different outcome. But even if it could (and should) reasonably be interpreted in that way I'm satisfied this wouldn't affect the outcome.

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 Mr S to accept or reject my decision before 20 March 2025.

Janet Millington
Ombudsman