

The complaint

Mr G complains that Honda Finance Europe Plc trading as Honda Financial Services ('Honda Finance') was irresponsible in its lending to him. He wants all interest and charges refunded, along with his deposit. He wants 8% interest added to his refunds and any adverse information removed from his credit file.

What happened

In July 2020, Mr G was provided with a hire purchase agreement by Honda Finance to finance the acquisition of a car. The agreement had a term of 37 months. Mr G paid a £6,250 deposit. He was then required to make 36 monthly repayments under the agreement of around £319 followed by a final repayment of £11,887.80.

Mr G said that the repayments due under the agreement were never affordable and that adequate checks weren't carried out before the lending was provided. He said that his credit report at the time showed he had debts outstanding on eight credit cards on which he was only paying the minimum amounts. He also had a joint mortgage and hire purchase agreements. He said he had missed payments on his other credit commitments, and his debts were increasing.

Honda Finance issued a final response to Mr G's complaint dated 25 June 2024. It said that it carried out a credit search to assess Mr G's creditworthiness and also affordability checks. It said that the credit check carried out at the time of Mr G's application showed that he wasn't in arrears on his active accounts and the history of late payments he had referred to had occurred more than two years prior to application. It said his indebtedness was deemed average, and it determined the repayments due under the agreement were affordable. It said that Mr G made all of his repayments in accordance with the repayment schedule, and he didn't make it aware of any financial difficulties throughout the duration of the agreement. Given this it didn't uphold his complaint.

Mr G referred his complaint to this service.

Our investigator wasn't satisfied that Honda Finance had carried out proportionate checks. He thought that along with its other checks it could have asked Mr G about his expenditure and living expenses to understand whether the agreement was affordable and sustainable for him.

Our investigator looked at the information contained in Mr G's bank statements to understand what proportionate checks would have shown. And he found that these would have shown that Mr G didn't have sufficient disposable income to cover the repayments. Therefore, he upheld this complaint.

Mr G agreed with our investigator's view. Honda Finance requested an extension but then didn't provide a further response to the view. Because of this, this case has been passed to me, an ombudsman, to issue a decision.

My provisional conclusions

I issued a provisional decision on this complaint with a different approach taken to the redress. The details of my provisional decision are set out below.

Before the finance was provided, Honda Finance said that it assessed Mr G's creditworthiness and the affordability of the repayments. While it has referred to the credit check I haven't seen the results of this, and I also haven't seen the details of the affordability check. Therefore, I cannot say whether the checks carried out were proportionate. Because of this I have looked at the information that has been provided to assess what I think would have been identified through proportionate checks.

Mr G has provided a copy of his credit report dated October 2019 and copies of his joint bank statements for the three months leading up to the agreement being provided. While Honda Finance wasn't required to request Mr G's bank statements, I have considered the information they contain to understand what proportionate checks would likely have identified.

Mr G's net monthly income for the months leading up to the agreement was £1,589. The account statements also show that Mr G's wife received a regular income into the account and £140 a month was received in benefits. Given the two incomes into the account, I think it reasonable that the household costs would be split.

Attributing 50% of the mortgage payments and other household costs such as utilities, insurances, communications contracts and council tax as well as a share of general living costs such as food and fuel would result in Mr G's contribution to costs being around £1,100.

Additional to this Mr G had existing credit commitments. His credit report from October 2019 showed he was making payments towards an active loan account as well as credit card accounts and two hire purchase agreements as well as his mortgage. While it is possible that the hire purchase agreements were for both Mr G and his wife and Mr G has said that one was replaced by this agreement, his credit card repayments are evidenced in the bank statements, and I have no reason to think these wouldn't have continued. Mr G has also shown that he paid the deposit on another credit card. There are additional credit payments on the bank statements which aren't recorded in Mr G's October 2019 credit report. This may be because they are in his wife's name, or they were taken out after that date. As I cannot say for certain they were Mr G's responsibility I haven't included these. But taking the credit card repayments of around £110 a month shown in the bank statements and cross referenced with the credit report plus the amount due on the £6,000 deposit (around £300) would leave Mr G with less than the amount due under the Honda Finance agreement. Taking all of the above into account, I think that proportionate checks would likely have shown the lending to be unaffordable for Mr G over the agreement term. Therefore, I am upholding this complaint.

I've also considered whether Honda Finance acted unfairly or unreasonably in some other way given what Mr G has complained about, including whether its relationship with him might have been viewed as unfair by a court under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr G 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.

Mr G accepted my provisional 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.

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.

As no new information has been provided in response to my provisional decision, my conclusions haven't changed. For the reasons I set out in my provisional decision I am upholding this complaint.

Putting things right

As I don't think Honda Finance ought to have approved the lending, I don't think it's fair for it to be able to charge any interest or charges for the borrowing. The agreement was entered into in July 2020 and had a term of 37 months and Mr G had use of the car until the agreement was settled in July 2023.

The cost of the car when Mr G entered into the agreement was recorded as £26,750 and Mr G shouldn't be required to pay any more than this.

To settle Mr G's complaint Honda Finance should do the following:

- Calculate how much Mr G has paid (including the deposit and settlement amount) and deduct £26,750 (the cash price of the car) from this. If Mr G has paid more than the cash price of the car, Honda Finance should refund any overpayments, adding 8% simple interest per year* from the date of payment to the date of settlement.
- Remove any adverse information recorded on Mr G's credit file regarding the agreement.

*HM Revenue & Customs requires Honda Finance to take off tax from this interest. Honda Finance must give Mr G a certificate showing how much tax it's taken off if he asks for one.

My final decision

My final decision is that I uphold this complaint. Honda Finance Europe Plc trading as Honda Financial Services should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 28 March 2025.

Jane Archer
Ombudsman