

## **The complaint**

Mrs R, who is represented by a third party, complains that Volkswagen Financial Services (UK) Limited ('VWFS') irresponsibly granted her a hire purchase agreement she couldn't afford to repay.

## **What happened**

In August 2016 Mrs R acquired a new car financed by way of a hire purchase agreement from VWFS. Mrs R was required to make 48 monthly repayments of £366.49. She paid a deposit equivalent to £1,720. The total repayable under the agreement was £26,456.24. Mrs R paid a final balloon payment at the end of the agreement in order to keep the car.

Mrs R says VWFS failed to carry out proper checks to ensure the agreement was affordable for her and she would be able to repay it sustainably.

In June 2023, Mrs R complained to VWFS. VWFS looked into the complaint and said it was confident that it had carried out adequate checks before agreeing the finance. Mrs R therefore brought her complaint to this service.

Our investigator first explained why he felt the complaint had been brought in time under the time limit rules we must apply. He then went on to find that VWFS hadn't acted unfairly in approving the finance.

As Mrs R and those representing her don't agree, her complaint has been passed to me for a final 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.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mrs R's complaint.

VWFS hasn't responded to our investigator's finding that the complaint has been brought in time. But as I'm not planning to uphold the complaint – for reasons I'll explain – I don't propose commenting on that aspect any further.

In the same way as our investigator, I'll first look at the checks VWFS carried out. I'll then move on to look at what reasonable and proportionate checks would have shown.

*Did VWFS carry out reasonable and proportionate checks to satisfy itself that Mrs R would be able to repay the loan in a sustainable way?*

When assessing affordability, there isn't a set list of checks that VWFS needed to complete. But they needed to be borrower focussed and proportionate to things like the type of lending,

the cost of the lending as well as the amount and the period of time over which Mrs R would need to make repayments.

When applying for the finance, Mrs R gave details of her occupation and residential status. VWFS took her net monthly income to be around £4,700, based on an estimate arrived at by a credit reference agency. VWFS also carried out a credit check that showed there were no missing payments on her existing credit commitments. And VWFS's review of her credit file – which was largely consistent with the one she sent us - showed no adverse markings such as arrears or defaults in her recent credit history.

In terms of checking for affordability, aside from using an estimate of her monthly income, VWFS relied on the dealership asking Mrs R if the agreement was going to be affordable for her. Mrs R confirmed it was and wasn't aware of any significant changes likely to affect her income. VWFS didn't ask Mrs R about her expenditure, which would've helped to gain a better idea of what her regular living and credit expenses were. Without knowing what Mrs R's regular committed expenditure each month was, VWFS wouldn't have got a wider understanding of whether the agreement was affordable or not. I also think that's a particular concern given that VWFS used a credit reference check to check her monthly income, which relied on an estimated sum. I've also kept in mind that Mrs R was taking on a significant financial commitment for the next four years. So VWFS needed to be assured that she could repay it sustainably.

I therefore agree with our investigator that it would have been proportionate for VWFS to have got a more thorough understanding of Mrs R's financial circumstances before lending to her. That means it should have done more than it actually did.

*What would reasonable and proportionate checks more likely or not have shown at the time? Did VWFS reach a fair decision to lend?*

I next need to consider what better checks by VWFS would likely have shown about Mrs R's ability to make sustainable repayments under the agreement.

I can't be certain what Mrs R would have told VWFS had it asked about her regular expenditure. To help, I've reviewed some bank statements Mrs R sent us from the period before she made the application.

The statements show that Mrs R was receiving a variable monthly income. For the three months leading up to the agreement it averaged out at around £1,950 each month. Allowing for her contribution towards household costs of £1,070 plus her typical credit and mobile phone costs of around £260, Mrs R had around £600 still available. I've seen that her spending on food typically worked out at around £90-£100. So that would still leave around £500 available. I'm therefore broadly in agreement with our investigator that Mrs R was likely to have around £160 available each month by way of disposable income.

Taking these figures into account, it appears to show the agreement was affordable to Mrs R. For this reason, I'm not persuaded that VWFS acted unfairly in approving the finance.

I've seen that Mrs R and those representing her have suggested that she wouldn't have enough disposable income and that our investigator made an unrealistic estimate about the new agreement being affordable. The reason to consider bank statements is to gain a fair and reasonable idea of what VWFS might have seen had it carried out better checks at the time. In the specific circumstances of Mrs R's complaint, she appeared to have enough disposable income to be able to start and continue with this new agreement – where I note the monthly repayments were only very marginally more than her previous car finance agreement.

I am not suggesting that Mrs R wouldn't have to be careful with her spending going forwards. But from what I've seen, Mrs R's financial situation was relatively stable and without issues suggesting that it might be at risk of deterioration. I appreciate there is always the possibility of unforeseen emergencies – which by their very nature cannot be estimated for. I am however satisfied that Mrs R was likely to be able to fund such emergencies from her disposable income or the credit that was available to her.

All of this means that I don't think VWFS made an unfair lending decision in agreeing to provide this finance to Mrs R.

*Did VWFS act unfairly or unreasonably in any other way?*

Having noted Mrs R's payment history and VWFS's customer records, I can see that Mrs R was able to keep to the repayment schedule set up under the agreement. So I again agree with our investigator that there's insufficient evidence of her taking steps to make VWFS aware of any payment issues she was having. On that basis I am unable to make a finding that VWFS ought to have done more to support her when she was having payment difficulties.

So, taking everything I've seen into consideration, I'm not persuaded that VWFS acted unfairly in approving the finance.

I've also considered whether the relationship between Mrs R and VWFS might have been unfair under Section 140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think VWFS lent irresponsibly to Mrs R or otherwise treated her unfairly. I haven't seen anything to suggest that Section 140A or anything else would, given the facts of this complaint, lead to a different outcome here.

### **My final decision**

For the reasons I've given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs R to accept or reject my decision before 28 April 2025.

Michael Goldberg  
**Ombudsman**