

The complaint

Mr N complains that Volkswagen Financial Services (UK) Limited trading as Audi Financial Services (“Audi”) didn’t check his finances to ensure the loan was affordable for him.

What happened

In February 2023, Audi provided Mr N with a hire purchase agreement for a used car. The cash price for the vehicle was £72,995 and Mr N paid a £7,000 deposit with a further £250 being provided by the way of a dealer contribution. £65,745 was financed and if Mr N paid the agreement in line with the credit agreement, then he would’ve repaid a total of £94,078.94. This was to be repaid through 48 monthly repayments of £1,033.88 followed by a final optional payment of £37,192.50.

The statement of account provided by Audi shows an outstanding balance remains due and to date, Mr N has had some difficulties making his payments.

Audi issued a final response letter about Mr N’s complaint in August 2024, and it didn’t uphold it because it considered that it fairly assessed the agreement as being affordable. Mr N then referred the complaint to the Financial Ombudsman.

Mr N’s complaint was then considered by an investigator who didn’t uphold it. The investigator concluded while Audi had a fairly accurate idea of Mr N’s income his credit report showed some recent impaired history, so Audi ought to have looked more closely into his finances. However, had Audi made better checks it would’ve decided the agreement was still affordable for Mr N.

Mr N disagreed saying Audi hadn’t considered he was self-employed and so would’ve had tax to pay on any income received, Audi also didn’t consider a ‘stress test’ of the application to see what may have happened if Mr N’s income would decrease. Finally, Mr N says his self-employed tax returns show an income figure of closer to £3,000 per month – and not the £5,000 used by Audi.

These comments didn’t change the investigators 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 Mr N’s complaint. Having carefully thought about everything I’ve been provided with, I’m not upholding Mr N’s complaint. I’d like to explain why in a little more detail.

Audi needed to make sure that it didn’t lend irresponsibly. In practice, what this means is that Audi needed to carry out proportionate checks to be able to understand

whether any lending was sustainable for Mr N 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.

In this complaint, I've thought about the checks Audi did do and what it may have seen had it made additional checks. I'm mindful that this was the first agreement with it and Mr N had approached Audi for a car and so was seeking finance to purchase it.

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

Audi says that it conducted a number of checks, including what it calls a number of "scorecards" as well as its policy rules. Audi says that Mr N's risk band was such that the agreement was "auto-approved."

Audi was told Mr N was in full time self-employment and had been with the same company for 17 years. As part of the application Audi used a tool provided by a credit reference agency to determine Mr N's likely income. The results of that check indicated Mr N was earning around £5,100 per month.

Whereas, Mr N says that his monthly income wasn't as high as Audi calculated. His tax return shows that in the tax year when he purchased his vehicle his 'net profit' was nearly £30,900 for the year.

However, Audi for a first loan, was entitled to rely on the results of its check that indicated Mr N earned a sufficient amount to be able to make his monthly repayments. In addition, Mr N was asked to tick a box asking whether based on his income and expenditure whether he could afford to make his repayments.

While this box and declaration isn't sufficient to mean Audi doesn't have to do any checks, this declaration along with the rest of the checks that it carried out has led me to conclude it was reasonable for Audi – for the purposes of its affordability assessment - to have relied on a monthly income of around £5,000.

Audi 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 in order to see whether it was given any indication that Mr N was, or was likely to be, having financial difficulties at the time the agreement was granted.

Based on the credit file information Audi was told that Mr N didn't have any defaults, other insolvencies or County Court Judgements. In terms of active accounts, Mr N had nine accounts in total three communication accounts, an existing hire purchase agreement costing £726 per month, a loan costing £300 per month, a credit card with a balance of just over £5,600, a water bill, a current account where Mr N had used £2,525 of his £4,500 overdraft and another current account which while Mr N had an overdraft it didn't appear to have been used.

The active accounts had been generally well maintained, there was a missed payment on one of the communication accounts about a year before the agreement had started. In addition to this Mr N's current hire purchase agreement was in arrears by one month – and had been that way for the previous two months. I think it's fair to say there was some recent impaired credit history.

In addition, Mr N declared he was in rented accommodation and his rent was costing him £700 per month. However, beyond that, while Audi may have used a combination of policy rules and score cards I don't know and can't know – as the information hasn't been provided, exactly what figures – if it discovered about Mr N's other likely living costs beyond his rent and his existing credit commitments.

But given what Audi has provided, and even accounting for the monthly repayment of just over £1,000 per month, it did look as if Mr N had plenty of headroom to be able to afford his rent and the car and living costs.

I appreciate, the loan may have appeared affordable to Audi but I don't think that conclusion could be fairly reached when it seems Mr N's everyday living costs weren't considered – and if they were the fact that there was recent adverse impaired credit history ought to have led Audi to conclude that it ought to have done more than just relying on its auto approval and score card process. At the very least Audi ought to have gained an understanding what Mr N's actual monthly outgoings were – beyond his rent.

Audi could've gone about doing this a number of ways, it could've simply asked Mr N about his living costs, asked for evidence from Mr N about his bills, or any other documentation it felt it may have needed. Or, as I've done here reviewed the bank statements Mr N has provided. This didn't, and doesn't mean that, Audi had to undertake a full financial review of Mr N's circumstances such as considering every transaction in his statements, merely it just needed to obtain a better idea of what his living costs were.

Mr N has provided a breakdown of his likely monthly costs, and taking account of his salary and his outgoings including tax he needs to pay, bills and other agreements his monthly outgoings came to £5,600.

I'd also add that Mr N has told us that he was borrowing money from his brother and other family members. But I'm not persuaded that a review of Mr N's living costs would've highlighted to Audi these loans and repayments. In addition, these wouldn't have shown up on Mr N's credit report.

It is also worth saying here I've not included the payments Mr N was making to his existing hire purchase agreement because Mr N has told us he had the intention to replace the existing one with this one. So, moving forward, that payment wouldn't need to be paid.

Mr N has also explained that he has two sets of statements, one is used for mainly receipt of income while the other account he has provided was used to cover his monthly bills.

In terms of income, while Audi had used a tool to check this, I've nonetheless used the income accounts to see what Mr N received. I would add that this is just the income and I acknowledge Mr N would've had tax and national insurance payments to make. But the statements show his income did fluctuate.

The statements appear to show that in November 2022 Mr N received income of just under £3,000 whereas Mr N received over £10,000 in January 2023 and over £6,000 in

February 2023. This does show Mr N's income fluctuates but also that the check Audi carried out didn't provide an unreasonable total monthly income for Mr N.

Mr N has pointed out – and can be seen in the statements that his rent was £1,400 per month but Audi says Mr N declared his costs were £700. For the purposes of the affordability assessment it would've been reasonable to have relied on what Mr N had declared – so Audi wouldn't have needed to have investigate these costs any further.

Had Audi reviewed Mr N's bank statements – or gathered other information about his living costs, it would've likely discovered he had a significant number of direct debits and standing orders each month – to a number of different credit providers, and other costs you would expect to see for someone in rented accommodation. There are costs for things such as mobile phone, TV subscriptions services, insurances and council tax.

The Investigator worked out Mr N's total monthly outgoings to be around £3,204 per month this included the full rent price as well as his credit commitments. Looking at the costs that I can see, that seems about right – but bearing in mind this included the full rental cost when it would've been reasonable, in my view to have taken what Mr N had told it at face value. So, Audi may well have thought that Mr N's living costs were smaller than the above figure.

But given what I've said above about Audi not needing to conduct a forensic review of his bank statements – I do think had Audi made some enquiries with Mr N about his living costs it would've likely concluded the finance was affordable for him. I do not uphold the complaint.

I have also had to place some weight on the fact that while Audi had an obligation to conduct proportionate affordability checks Mr N still sought out Audi to purchase the car. And while I've considered what he says about Audi conducting a stress test – there is no requirement for it to do so. It would only have to consider the affordability at the time the agreement is entered into and whether there would be a likely change in circumstances. But given that Mr N had been employed in the industry for a number of years – there wasn't and couldn't have been anything to have made Audi consider that Mr N's circumstances may change during the life of the agreement.

I fully accept that Mr N may have not been in the best financial position when he took the agreement with Audi but even if further checks were carried out – given the limited nature of those checks and what Audi may have likely discovered I can't fairly say that it would've discovered the agreement was unaffordable.

So even if Audi had made better checks, 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 Audi lent irresponsibly to Mr N or otherwise treated him 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.

An outstanding balance remains due and I would remind Audi of its regulatory obligation to treat Mr N fairly and with forbearance with discussing the repayment of the agreement. If Mr N hasn't already done so he may wish to speak with Audi to see what help and support it can offer him.

My final decision

For the reasons I've outlined above, I am not upholding Mr N's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N to accept or reject my decision before 12 June 2025.

Robert Walker
Ombudsman