

Complaint

Mr W complains that Volkswagen Financial Services (UK) Limited ("VWFS") unfairly entered into two hire-purchase agreements with him. He's said that the monthly payments to both agreements were unaffordable and he therefore shouldn't have been lent to.

Background

Agreement one

In August 2014, VWFS provided Mr W with finance for a used car. The purchase price of the vehicle was £20,910.00. Mr W paid a deposit of £6,250.00 and entered into a 36-month personal contract purchase hire-purchase agreement with VWFS for the remaining £14,660.00 he required to complete his purchase.

The loan had interest charges of £2,903.35 and a £60 option to purchase fee. This meant that the balance to be repaid of £17,623.35 (which does not include Mr W's deposit) was due to be repaid in 35 monthly instalments of £222.81 and one optional final repayment, of £9,825.00, which included the £60 option to purchase fee and which Mr W only had to pay if he wanted to keep the vehicle. In April 2015, Mr W settled this agreement early as a result of wanting to enter into a new agreement with VWFS.

Agreement two

In April 2015, VWFS provided Mr W with finance for a second time after he decided he wanted to change car. The purchase price of this vehicle was £25,855.00. Mr W paid a deposit of £8,305.00 and once entered into a 36-month personal contract purchase hire-purchase agreement with VWFS for the remaining amount he needed. This time the amount borrowed was £17,550.00.

The loan had interest charges of £6,826.82 and a £60 option to purchase fee. This meant that the balance to be repaid of £22,436.82 (which does not include Mr W's deposit) was due to be repaid in 36 monthly instalments of £237.62 and one optional final repayment, of £13,882.50, which included the £60 option to purchase fee and which Mr W had to pay if he wanted to keep the vehicle. This agreement was settled early in June 2017.

In June 2023, Mr W complained that both agreements were unaffordable for him and so should never have been provided. VWFS didn't uphold the complaint. As far as it was concerned, its checks confirmed that the finance was affordable on both occasions and so it was reasonable to lend.

Mr W's complaint was considered by one of our investigators. He reached the conclusion that VWFS hadn't done anything wrong or treated Mr W unfairly on either occasion. So he didn't recommend that Mr W's complaint should be upheld.

Mr W disagreed with our investigator and the complaint was passed to an ombudsman for a final decision.

My findings

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 W's complaint.

Having carefully considered everything, I've decided not to uphold Mr W's complaint. I'll now explain why in a little more detail.

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

Having carefully thought about everything I've been provided with, I'm not upholding Mr W's complaint. I'd like to explain why in a little more detail.

VWFS says it agreed to these applications after Mr W provided details of his employment and details of his residential status. It says it also carried out credit searches on Mr W which had shown that while he had some existing credit commitments these were being relatively well maintained. And when reasonable repayments to the credit Mr W owed as well as his living costs and the payments to these agreements were deducted from his monthly income, Mr W had a reasonable amount left over.

On the other hand, Mr W says that both agreements were unaffordable for him as he was borrowing from friends and family and he was in the midst of a gambling addiction.

I've thought about what Mr W and VWFS have said.

The first thing for me to say is that much like our investigator, I don't think that the checks VWFS carried out on either occasion went far enough. I don't think it was reasonable for VWFS not to at least take steps to cross-check Mr W's actual income, given the amount of the monthly payments and how long Mr W was expected to make them for.

As VWFS didn't carry out sufficient checks on either occasion, I've gone on to decide what I think VWFS is more likely than not to have found out had it obtained further information from Mr W. Bearing in mind, the length of time of the agreements and the amount of the monthly payments, I would have expected VWFS to have had a reasonable understanding about Mr W's income and living expenses as well as his existing credit commitments.

The information Mr W has provided does appear to show that when his actual committed regular living expenses and the credit commitments the credit searches carried out were deducted from his monthly income, he did have the funds, at the time at least, to sustainably make the repayments due under both of these agreements.

I accept that Mr W's actual circumstances at the time may have been worse than what the information I think that VWFS ought to have obtained shows. I've noted that Mr W has said that he was borrowing from family and friends at these times and has referred to being in the midst of a gambling addiction. I've considered what Mr W has said.

However, to start with any borrowing from friends and family wouldn't have shown up in VWFS' credit checks. So it's difficult for me to see how VWFS could reasonably be expected to know about this. Furthermore, I accept that if VWFS had known about Mr W's gambling as he appears to be saying it should have, it is possible, but by no means certain, that it may have reached different decisions lending to him.

That said, what I need to think about here is what was Mr W's income, what were his actual committed living costs and what were his existing regular credit commitments on each occasion. This isn't the same as reviewing Mr W's bank statements in the way that Mr W has done prior to making his submissions here.

I also need to keep in mind that Mr W was being provided with finance for cars, which he would not be able to gamble, rather than cash. It's also worth noting that Mr W was making large advance payments and he made all of the repayments on time on the first agreement. VWFS was entitled to take into account its previous dealing with Mr W and therefore for the second agreement this was a reason why it was reasonably entitled to conclude payments of not a lot more won't have proved difficult to repay.

Bearing in mind all of this, I don't think that proportionate checks would have gone into the level of granularity whereby VWFS ought reasonably to have realised that Mr W was gambling on either occasion.

Most importantly of all I also have to consider Mr W's current submissions in the context that they are now being made in support of a claim for compensation. Whereas at the time of the respective sales, at least, Mr W wanted the cars that he had chosen and it's fair to say that any explanations he would have provided would have been with a view to persuading VWFS to lend to him rather than highlighting the agreements were unaffordable.

Therefore, I think that it is unlikely – and certainly less likely than not – that Mr W would have disclosed any gambling, or that he was borrowing from friends and family, if pushed for further information at the respective times, or that VWFS would have been in a position to know about this on either occasion.

In reaching my conclusions, I've also considered whether the lending relationship between VWFS and Mr W might have been unfair to Mr W under section 140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I don't think VWFS irresponsibly lent to Mr W or otherwise treated him unfairly in relation to this matter. And I haven't seen anything to suggest that section 140A CCA or anything else would, given the facts of this complaint, lead to a different outcome here.

Overall and having carefully considered everything, while I don't think that VWFS' checks before entering into these hire purchase agreements with Mr W did go far enough, I'm satisfied that carrying out reasonable and proportionate checks won't have stopped VWFS from providing these funds, or entering into either of these agreements with him. I appreciate that this will be disappointing for Mr W. But I hope he'll understand the reasons for my decision and at least consider that his concerns have been listened to.

My final decision

My final decision is that I'm not upholding Mr W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 16 June 2025.

Jeshen Narayanan
Ombudsman