

The complaint

Miss A complains that a hire purchase agreement with First Response Finance Limited, under which a car was supplied to her, wasn't affordable for her. She's being represented in her complaint by a professional representative.

What happened

A used car was supplied to Miss A under a hire purchase agreement with First Response Finance that she electronically signed in March 2021. The price of the car was £4,799, Miss A paid a deposit of £299 and she agreed to make 49 monthly payments of £141.05 to First Response Finance.

Miss A settled the hire purchase agreement in July 2023 and her representative complained to First Response Finance, on behalf of Miss A, in December 2024 that it had failed to carry out sufficient affordability checks to consider whether the agreement was suitable for Miss A's needs and circumstances. First Response Finance said that it completed reasonable and proportionate checks to satisfy itself that Miss A would be able to repay the agreement in a sustainable way and that its detailed evaluation evidenced that she had the stability, ability, sustainability, and intent to repay the loan without significant difficulty.

A complaint was then made to this service. The complaint was looked at by one of this service's investigators who, having considered everything, didn't think that First Response Finance had acted fairly. He said that although First Response Finance completed proportionate affordability checks, he didn't think that it made a fair lending decision because the information and evidence that it had gathered from Miss A showed that the agreement wasn't affordable and sustainable. He recommended that First Response Finance should refund any payments that Miss A had made in excess of the price of the car of £4,799, with interest, and remove any adverse information recorded on Miss A's credit file regarding the agreement.

First Response Finance didn't accept the investigator's recommendation and has asked for an ombudsman to issue a decision on this complaint. It says, in summary and amongst other things, that Miss A had a capacity of £178.91 to afford the agreement to make an important purchase, she told it that she would usually earn £200 each week as a hairdresser but wasn't working due to the government imposed restrictions in response to the pandemic, and she repaid the agreement in full and without issue which wouldn't have been possible had the agreement not been affordable. It also says that Miss A should be asked to prove that its lending caused her to enter into indebtedness elsewhere.

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.

First Response Finance was required to make reasonable and proportionate checks to ensure that the hire purchase agreement was sustainably affordable for Miss A. It says that Miss A wasn't working at the time of application but was in receipt of full time state benefits

and that it verified her income using open banking data, it assessed her income and expenditure to help it to understand if she could afford the monthly repayments, and checked her credit file.

The amount of credit being provided to Miss A was £4,500 and the monthly payment under the hire purchase agreement was £141.05. I consider that the checks that First Response Finance made were reasonable and proportionate in those circumstances.

Those checks showed that Miss A's monthly income from benefits was £1,581.04 and that her monthly expenditure included £93 on council tax, living costs of £370, dependents' costs of £300, housing payments of £550 and credit costs of £112.14, so a total of £1,325.14, which gave her a monthly disposable income of £255.90. That didn't include the full amount of an additional credit commitment of £106.51 that was shown on Miss A's credit file. First Response Finance's application notes show that it was aware of that credit commitment and said that it would be added to Miss A's expenditures, but only a monthly payment of £29 was included in the credit costs. In response to the investigator's recommendation, First Response Finance says that Miss A would have had a capacity of £178.91 after properly including the additional credit commitment.

The monthly payment under the hire purchase agreement was £141.05 so, after making that payment, Miss A would have been left with a monthly disposable income of only £37.86. I don't consider that a monthly disposable income of only £37.86 was enough to cover the additional expenses that Miss A was likely to incur. I consider that First Response Finance should have concluded from the reasonable and proportionate checks that it had made that a monthly payment of £141.05 wasn't sustainably affordable for Miss A at that time, so the hire purchase agreement was unaffordable for her.

First Response Finance says that the car was an important purchase and that Miss A told it that she usually earned £200 each week as a hairdresser. It has provided evidence of that in the application notes but I'm considering whether or not it made reasonable and proportionate checks to ensure that the hire purchase agreement was sustainably affordable for Miss A at the time that she entered into the agreement. It didn't ask Miss A to provide further evidence of her income from hairdressing or any evidence about when she would be returning to work and I don't consider that any income from hairdressing should have affected any affordability assessment without more detailed information about that income being obtained. Even if the car was an important purchase for Miss A, First Response Finance should only have provided credit to Miss A if the credit was affordable for her, and for the reasons given above, I don't consider that it was.

First Response Finance also says that Miss A repaid the agreement in full and without issue which wouldn't have been possible had the agreement not been affordable and that Miss A should be asked to prove that its lending caused her to enter into indebtedness elsewhere. I'm not persuaded that the hire purchase agreement being settled in July 2023 shows that it was affordable for Miss A. The APR under the agreement was 24.9% and no evidence as to how Miss A was able to afford the payment of £2,483.84 to settle the agreement or Miss A's circumstances at that time has been provided. As I've already said, I'm considering whether or not First Response Finance made reasonable and proportionate checks to ensure that the hire purchase agreement was sustainably affordable for Miss A at the time that she entered into the agreement and her settling the agreement and any other indebtedness wouldn't affect that consideration.

I've also considered whether First Response Finance acted unfairly or unreasonably in some other way, including whether its relationship with Miss A might have been unfair under section 140A of the Consumer Credit Act 1974. As I'm upholding Miss A's complaint for the reasons given above, I don't consider that I need to make a finding on that. I consider that the actions that I've described below result in fair compensation for Miss A in the circumstances of this complaint and I'm not persuaded that it would be fair or reasonable for me to require First Response Finance to take any actions other than as described below.

I don't consider that the hire purchase agreement was sustainably affordable for Miss A when she entered into the hire purchase agreement so I consider that First Response Finance shouldn't have lent £4,500 to her. I find that it would be fair and reasonable in these circumstances for First Response Finance to take the actions described below.

Putting things right

As I consider that First Response shouldn't have lent £4,500 to Miss A, I consider that it isn't fair or reasonable for it to have charged any interest or fees under the hire purchase agreement, so Miss A should only have to pay the price of the car, which is shown on the hire purchase agreement as £4,799. I find that any payments made by Miss A in excess of £4,799 should be refunded to her as an overpayment, and that it should also pay interest on the amounts to be refunded.

The investigator said that First Response Finance should remove any adverse information recorded on Miss A's credit file regarding the agreement. I've seen no evidence to show that First Response Finance has reported any adverse information about the hire purchase agreement to the credit reference agencies but, if it has done so, I consider that it should remove that information from Miss A's credit file.

My final decision

My decision is that I uphold Miss A's complaint and I order First Response Finance Limited to:

1. Refund to Miss A any payments that she made to it under the hire purchase agreement in excess of £4,799.
2. Pay interest on the payments to be refunded at an annual rate of 8% simple from the date of each payment to the date of settlement.
3. Ensure that any adverse information about the hire purchase agreement that it's reported to the credit reference agencies is removed from Miss A's credit file.

HM Revenue & Customs requires First Response Finance to deduct tax from the interest payment referred above. First Response Finance must give Miss A a certificate showing how much tax it's deducted if she asks it for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 2 October 2025.

Jarrold Hastings
Ombudsman