

The complaint

Mr T is complaining about Tandem Motor Finance Limited trading as 1st Stop Car Finance (1st Stop). He says they were irresponsible in lending to him because the repayments were unaffordable. Mr T is represented by a third party but for ease, I've written as if we've dealt with him directly throughout.

What happened

In August 2019, Mr T took out a hire purchase agreement with 1st Stop to finance the purchase of a car. He borrowed £10,849 - the cash price of the vehicle. The agreement required Mr T to make 53 monthly repayments of £358.03, followed by a final payment of £378.07. Apart from a three-month payment holiday associated with the pandemic, Mr T made his payments on time until January 2022, when his direct debits started to be rejected frequently. He cleared his arrears by October 2022 but stopped paying after February 2023, with around £6,240 left on the account.

In January 2024, Mr T complained to 1st Stop, saying that the lending had been irresponsible.

1st Stop didn't uphold Mr T's complaint. They said they'd carried out appropriate checks before lending to Mr T and this had included verifying his income using his bank statements, and discussing certain transactions in his bank statements with Mr T. They said they'd checked Mr T's credit file which gave them no concerns, and the monthly repayment needed was less than 20% of the income they'd verified.

Mr T was unhappy with 1st Stop's response so brought his complaint to our service. One of our investigators looked into it. After initially concluding the agreement was affordable for Mr T, he later upheld the complaint having received more information from Mr T. He said he didn't think 1st Stop had conducted proportionate checks. And, he said, if they had, they couldn't have fairly decided to lend to Mr T. Our investigator said Mr T's committed expenditure was significantly higher than his income at the time of the lending decision and so 1st Stop shouldn't have lent to him.

1st Stop disagreed with our investigator. They said Mr T had previously been paying over £700 per month for a car and it was possible this agreement was replacing that one. They explained how they'd treated certain items of expenditure when carrying out their affordability assessment and said they didn't think our investigator had enough information to fully assess Mr T's financial situation at the time of the lending because of the number of transfers in and out of other accounts. Because 1st Stop disagreed with our investigator, the complaint was referred for a decision – and it came to me. I didn't think the complaint should be upheld so I issued a provisional decision on 3 June 2025. In that I said:

“The Financial Conduct Authority (FCA) sets out in a part of its handbook known as CONC what lenders must do when deciding whether or not to lend to a consumer. In summary, a firm must consider a customer's ability to make repayments under the agreement without having to borrow further to meet repayments or default on other obligations, and without the repayments having a significant adverse impact on the customer's financial situation.”

CONC says a firm must carry out checks which are proportionate to the individual circumstances of each case.

Did 1st Stop carry out proportionate checks?

1st Stop said they carried out the following checks:

- verified Mr T's income using both an automated tool provided by one of the credit reference agencies, and by reviewing his bank statements;
- reviewed Mr T's credit file; and
- used statistical data to estimate Mr T's expenditure.

Whether or not these checks were proportionate depends on various factors, including the term of the loan, cost of credit, and overall amount repayable – as well as what 1st Stop found during their checks. Given the loan was for four and a half years, at a high interest rate, and Mr T would need to pay back over £19,000 over that time, the checks needed to be thorough.

1st Stop's evidence suggests Mr T told them he was self-employed in a coffee shop, with a monthly income of £4,000. They weren't satisfied with their automated income check, so they asked for Mr T's bank statements for the preceding three months. They reviewed the bank statements and discussed a rejected direct debit with Mr T and were satisfied this wasn't due to insufficient funds. And they discussed transfers to a certain bank account, which Mr T told them were to a friend's account – 1st Stop included these as deductions when calculating Mr T's profit from his business.

1st Stop calculated Mr T's profit by deducting business expenses from his income – arriving at around £4,000 for the first month, £2,550 for the second month and £2,770 for the third month. They took an average of these and deducted 20% for tax, and estimated Mr T's actual monthly income from his self-employment was around £2,500.

The credit report 1st Stop reviewed shows Mr T had an existing hire purchase agreement, three credit cards, and three mail order accounts. His unsecured debts totalled just over £5,000, and, whilst he was close to his limits on his credit cards and made some minimum payments, he had no recent missed payments, defaults or other adverse information. The credit report shows he had discharged a bankruptcy or insolvency order in September 2015 – but as this was four years before 1st Stop's lending decision, I don't consider it a good indicator of Mr T's financial circumstances in August 2019.

1st Stop used data from the Office for National Statistics (ONS) to estimate his cost of living. They've sent a breakdown, and the total is £592 per month. And they've said that deducting this and his existing credit commitments from the income they verified would have left Mr T with over £800 in disposable income from which to make the monthly payments required under this agreement.

CONC allows a firm to rely on statistical data to estimate a customer's expenditure, unless they have reason to believe the statistical data might not be appropriate in the circumstances. I haven't seen anything from Mr T's credit file or the bank statements he provided to 1st Stop that might suggest the use of statistical data wasn't reasonable.

So, in summary, 1st Stop verified Mr T's income and discussed the lending and certain transactions with him. They checked his credit report, and they estimated his disposable income using ONS data – determining that he'd have over £800 per month from which to make the £358 repayments required by this agreement. I've not seen anything to suggest

they should have done more checks, and I'm satisfied they were proportionate in the circumstances.

Did 1st Stop make a fair lending decision?

Having concluded that 1st Stop carried out proportionate checks, I need to decide whether they made a fair lending decision. I don't think there was anything on Mr T's credit file which suggested 1st Stop shouldn't lend to Mr T. I've considered their income and expenditure assessment further below.

1st Stop verified Mr T's net monthly income at around £2,500, by deducting some of the expenses in the bank statements he'd provided from the income in the same statements, then averaging across the three months and deducting 20% for tax. I've reviewed those statements, and I'm inclined to say 1st Stop should have deducted a few other expenses which appear to have been related to Mr T's café business. I think a fairer assessment of Mr T's personal net income from the business would have been around £2,200 per month on average.

Mr T's told us that some of the income 1st Stop included in their assessment wasn't his money – he was selling his father's belongings and then transferring the proceeds to his mother. But he didn't tell 1st Stop this at the time, so I can't say they should have known. And it wouldn't have made any difference to their income and expenditure assessment as both the income and the transfers out were included in their calculation of Mr T's net monthly income.

I'm aware Mr T had other business income and expenditure, going through a different account. But I can't say 1st Stop should have been aware of that – Mr T didn't provide them with those statements. So I haven't considered that income and expenditure here.

1st Stop's estimated £592 for Mr T's cost of living doesn't appear to include any housing cost. He's told us he was renting a room at his parents' house at the time, and I think it's likely that's why 1st Stop didn't include a figure for housing. Although I can see that Mr T was contributing to bills, I've seen no evidence that he was regularly paying rent. So I don't think 1st Stop's exclusion of housing costs from their affordability assessment was unreasonable.

1st Stop haven't provided us with their calculation of Mr T's credit commitments, but from his credit file, I estimated these at around £1,000 per month. This includes £734 for Mr T's previous hire purchase agreement. Mr T told us he returned the car in respect of that agreement at around the same time as entering into the agreement with 1st Stop. Had 1st Stop discussed this with Mr T, it's likely they'd have significantly reduced the credit commitments figure in their affordability assessment.

1st Stop concluded that Mr T had £800 disposable income each month from which to make the repayments of £358 per month due under this agreement. Although I think a fairer estimate of his income would have been around £300 per month lower, I also think 1st Stop could have fairly increased his monthly disposable income by £734 to account for the fact that he'd no longer need to make payments under his previous hire purchase agreement. So, even if 1st Stop had looked at the calculation differently, I think they could still have fairly decided the agreement was affordable for Mr T.

Have 1st Stop acted unfairly in any other way?

Mr T's told us that at the time of taking out this loan agreement, he'd only recently started his business – using money he inherited after his father passed away unexpectedly. He told us that the business failed quickly, lasting only a few months. I'm really sorry to hear that he went through this difficult time. But I can't say 1st Stop should have been aware of

this – I've seen no evidence that he told them, and, as I've explained above, I'm inclined to say they did enough checks before lending to Mr T, and made a fair lending decision.

Mr T contacted 1st Stop at the start of the pandemic, and they allowed him a three-month payment holiday. And when he later fell into arrears following some time off work, 1st Stop carried out an income and expenditure assessment with Mr T to ensure that the repayment plan they put in place was affordable for him.

1st Stop were proactive in contacting Mr T when he missed payments. And they explained to him why they were reporting arrears to the credit reference agencies. Mr T later fell into further arrears. He told 1st Stop the car was at the garage for repairs and he couldn't afford to pay for the repairs and continue to make the repayments under the agreement. 1st Stop offered to assess affordability for a repayment plan again, but this time Mr T said he didn't want this and would make the necessary payments. Although he didn't, I can't see that 1st Stop treated him unfairly. Instead, I'm inclined to say they've treated Mr T with the forbearance and due consideration I'd expect.

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 1st Stop lent irresponsibly to Mr T 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."

1st Stop didn't respond to my provisional decision, but Mr T and his representative both did. Between them, they made the following points:

- The statement that Mr T had no recent missed payments at the time was factually inaccurate – he had three mail order accounts and multiple credit cards in default and a discharged bankruptcy. And the credit file and bank statements show Mr T was paying a known debt collection agency, which confirms Mr T was actively in financial distress at the time.
- The lender's reliance on only three months of income data was inappropriate given Mr T had recently started his own business.
- 1st Stop didn't request statements from all of Mr T's active accounts.
- A proper review of Mr T's bank statements shows his income was irregular and unsustainable.
- 1st Stop should have asked Mr T at the time about the large receipts which related to the income from selling his father's belongings.
- The statements also show regular payments to individuals, suggesting personal debts or family obligations which weren't factored into the affordability assessment.
- The bank statements also show Mr T's regular spending was higher than the ONS figure of £592 that 1st Stop used.
- The ONS figures excluded any housing contributions – although Mr T lived with family, this should have been confirmed or estimated more accurately.
- Even if the lender's net income estimate of £2,500 per month is accepted, deducting Mr T's existing credit commitments, essential spending obligations and recurring direct debits would have left him with insufficient disposable income to support a further £358 per month commitment.

- It is speculative and unsubstantiated that Mr T's previous hire purchase was being replaced by this agreement. And even if was the case, this doesn't automatically translate into increased affordability.

Mr T felt that the calculations carried out by our investigator were an accurate reflection of his financial circumstances at the time and demonstrated the lending wasn't affordable.

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.

Having done so, I've now decided to uphold Mr T's complaint for broadly the same reasons as our investigator. I'll explain further below:

Credit history at the time of the lending decision

Mr T says he had several defaulted accounts at the time of the lending decision. But neither the credit report supplied by 1st Stop nor the credit report supplied by Mr T show these. I can see Mr T defaulted on several accounts from December 2019 onwards. But all of these were after 1st Stop's lending decision so I can't say 1st Stop should have considered them. I've already explained why I didn't think 1st Stop needed to give particular weight to Mr T's discharged bankruptcy.

Finally, I wouldn't necessarily consider payments to a debt collector to be evidence of current financial distress – payments typically continue to be made to debt collectors long after an account has been defaulted and often long after an individual's financial circumstances have improved. So, I don't think Mr T's credit history ought to have caused 1st Stop any particular concerns.

Income and expenditure

I can understand Mr T's position that 1st Stop shouldn't have relied on three months of income data given he'd only recently started his business. And I've thought carefully about this and what other data might have been appropriate. Given that Mr T's business had only been running for a few months, any income data from before that would have been irrelevant to Mr T's expected future income. And Mr T wouldn't have completed any relevant self-assessment tax returns or similar which might have provided better evidence of what his sustainable income would be.

So, if I were to decide this income data wasn't enough, I'd have to say 1st Stop shouldn't have lent to Mr T simply because he'd recently started a new business. And I don't think that's fair – particularly when the purpose of the lending was to buy a car.

However, I do think 1st Stop should have asked Mr T more questions about his business, and about his income and expenditure. Companies House shows that the business was only incorporated in early June. And the bank statements 1st Stop obtained suggested that Mr T had very variable income and several business expenses that they didn't take into account. On top of this, as Mr T's pointed out, the bank statements 1st Stop obtained showed that the £592 1st Stop had used as an estimate of Mr T's cost of living wasn't enough to even cover his regular direct debits. This was data that 1st Stop had obtained and therefore should have taken into account in making their lending decision.

Proportionate checks

On balance, I've decided that 1st Stop's checks weren't reasonable and proportionate in the circumstances. That's because 1st Stop had information which showed the ONS data they

used for expenditure wasn't applicable for Mr T. And because he was newly self-employed – so more checks were necessary to understand his income and business expenditure.

What would 1st Stop have found if they'd carried out proportionate checks?

As I've explained above, I think 1st Stop needed to find out more about Mr T's income and expenditure. To get an understanding of what 1st Stop would have found if they had made additional enquiries, I've reviewed Mr T's bank statements for his two current accounts for the two-month period from 15 June 2019 to 14 August 2019 – shortly before this finance agreement was approved.

I appreciate 1st Stop only had the bank statements up to 14 July 2019 but in the circumstances, I think 1st Stop should have obtained the most up to date information possible before reaching a decision. And it looks like 1st Stop only had bank statements for one account. Mr T's told us that he gave the broker bank statements for two bank accounts. I can't be sure what actually happened, but I'm satisfied that if 1st Stop had done enough checks they'd have ended up considering the information from both accounts. In their response to our investigator's view, 1st Stop said they didn't think we had enough information to fully assess Mr T's financial situation at the time of the lending because of the number of transfers in and out of Mr T's accounts. But Mr T's credit report shows he only had two current accounts. And he's explained the transfers he made to other people.

Having reviewed these bank statements I can see that Mr T's gross income was around £4,300 in the first month and around £5,500 in the second month. This takes into account all cash credits and WorldPay credits but not the large receipts from PayPal. Mr T's explained that these receipts related to selling his father's belongings on his behalf, and this correlates with the money being transferred out of his account shortly after being received on each occasion. I haven't taken into account either these receipts or these payments in my analysis. I know 1st Stop were unhappy that when they asked about these payments, Mr T described them as being payments to a friend – which 1st Stop appear to have interpreted as being business expenses. And it does seem that Mr T could have been more transparent about this at the time. But I think it's reasonably clear from the statements that the money comes in and goes straight out again on many occasions – suggesting it wasn't Mr T's money at all.

Mr T's bank statements also show that he was paying significant amounts to individuals on a regular basis. He's told us this was to people working in his business. This came to around £1,900 in the first month and around £2,900 in the second month. Mr T had other business expenses – supplies, insurance and equipment leasing – which averaged around £990 each month. These expenses don't include rent as it's not clear how much Mr T needed to pay each month.

Taking all this together it looks like Mr T's own net income from his business averaged at most around £1,500 per month, on which he'd be expected to pay tax at around 20% - leaving him with around £1,200 per month. He did also receive benefits of around £400 in each of the two months I reviewed. 1st Stop would have needed to understand how these benefits might change in the future, but I think they could have reasonably decided Mr T's net income was at most around £1,600 per month.

Mr T's credit file at the time shows that he had a hire purchase agreement, three credit cards and three mail order accounts. Mr T told us that the hire purchase agreement was being replaced by this one. And his credit file shows he stopped making payments against his previous agreement after August 2019. It's fair to assume he wanted this agreement with 1st Stop. So I'm satisfied that if 1st Stop had asked, Mr T would have told them he wouldn't need to continue making the payments for his existing hire purchase agreement. But he did have balances totalling around £5,000 across his credit cards and mail order accounts. And

he was paying £60 a month to two debt collectors (as seen in his bank statements), so Mr T would have needed to make payments of around £250 - £300 per month to cover his existing credit commitments.

Mr T's bank statements show that in addition to his business expenses, he was paying £200 per month in repayments of a personal loan, and £400 per month in council tax. He had several direct debits, for various types of insurance, road tax, and media providers. These totalled around £600 per month. So, Mr T's net monthly income of around £1,600 was largely being spent on these existing financial commitments, leaving less than £200 to cover this new agreement as well as other essentials such as food and fuel. In short, Mr T was not in a position to be able to afford the repayments under this agreement without a significant adverse impact on his financial circumstances.

This became apparent soon after the agreement was taken out when Mr T defaulted on two other credit accounts in December 2019 and January 2020.

Conclusion

As I've explained above, I'm not satisfied 1st Stop carried out proportionate checks before lending to Mr T, because he'd only recently started a business, and because the information they did have suggested his expenditure was significantly higher than that set out in the statistical data. If 1st Stop had carried out proportionate checks, I'm satisfied they'd have found the agreement wasn't affordable for Mr T and wouldn't have been able to fairly decide to lend to him.

Putting things right

As I don't think 1st Stop should have approved the loan, it's not fair for them to charge any interest or other charges under the agreement. But Mr T has had the full benefit of use of the car so it's fair he pays the cash price of it. 1st Stop should refund him any payments he's made in excess of the cash price.

In addition, 1st Stop should remove any adverse information recorded on Mr T's credit file regarding the agreement because it wouldn't have been recorded on his credit file if they hadn't lent to him.

My final decision

As I've explained, I'm upholding Mr T's complaint. Tandem Motor Finance Limited trading as 1st Stop Car Finance need to do the following to settle the matter:

- End the agreement with nothing further to pay, transferring ownership of the car to Mr T;
- refund all the payments Mr T has made in excess of £10,849, adding 8% simple interest per year from the date of each overpayment to the date of settlement; and
- remove any adverse information recorded on Mr T's credit file regarding the agreement.

HM Revenue & Customs require Tandem Motor Finance Limited trading as 1st Stop Car Finance to deduct tax from the interest element of my award. Tandem Motor Finance Limited trading as 1st Stop Car Finance must provide Mr T a certificate showing how much they've taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 17 July 2025.

Clare King
Ombudsman