

The complaint

Mr B believes CA Auto Finance UK Ltd ('CAF') acted irresponsibly by agreeing a personal contract purchase Agreement he'd applied for.

What happened

In November 2022, Mr B was supplied with a new car through a personal contract purchase agreement with CAF. The agreement was for £18,600 over 49 months, with 48 monthly payments of £370.79 and a final payment of £7,177 (payable if he wanted to keep the car).

Mr B complained that CAF didn't act responsibly when approving either the credit card or any credit limit increases. He's said that he didn't believe they did sufficient checks to ensure the payments were sustainably affordable for him. He was also unhappy that defaults and missed payments have been reported to the credit reference agencies after the agreement had been closed.

CAF didn't uphold the complaint. They said they completed detailed checks to ensure the agreement was affordable, including verifying Mr B's disposable income and his credit commitments. Not agreeing with this outcome, Mr B brought the matter to the Financial Ombudsman Service for investigation.

Our investigator didn't think CAF had done sufficient checks when approving the finance, and that they should've got a better understanding of Mr B's income and expenditure. The investigator considered Mr B's bank statements from the time of the application, which showed his income and expenditure at the time. And the investigator thought that a reasonable and proportionate check would've shown the agreement wasn't affordable.

The investigator also didn't think CAF were reasonable in charging Mr B for damage to the car when it was returned to them, as they hadn't been able to evidence any damage; that CAF hadn't acted reasonably by recording a default *after* the agreement had been terminated and the car collected, as CAF were unable to evidence any default notices being sent to Mr B; and that CAF failed to properly support Mr B, given his mental health condition, for which they had medical evidence.

The investigator said that Mr B shouldn't be liable for any interest or charges on the agreement, but he should pay fair usage of £233.12 for each month he had the car - £3,496.80 in total. So, CAF should recalculate the agreement on this basis, remove any adverse information from Mr B's credit file, and pay him an additional £700 for the distress and inconvenience he was caused.

Mr B accepted the investigator's opinion, but he was concerned that the adverse information reported by CAF might impact any future insurance premiums he would have to pay. He was also concerned that, if he owed CAF anything after the recalculations, it would put a strain on his finances to pay this amount.

CAF didn't agree with the investigator. They provided evidence of the checks they'd done when they approved the finance, but the investigator explained why these didn't alter their view. So, CAF asked for this matter to be passed to an ombudsman 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.

When someone complains about irresponsible and/or unaffordable lending, there are two overarching questions I need to consider in order to decide what's fair and reasonable in all of the circumstances of the complaint. These are:

1. Did CAF complete reasonable and proportionate checks to satisfy itself that Mr B would be able to repay the credit in a sustainable way?
 - a. if so, did CAF make a fair lending decision?
 - b. if not, would reasonable and proportionate checks have shown that Mr B could sustainably repay the borrowing?
2. Did CAF act unfairly or unreasonably in some other way?

And, if I determine that CAF didn't act fairly and reasonably when considering Mr B's application, I'll also consider what I think is a fair way to put things right.

Did CAF complete reasonable and proportionate checks to satisfy itself that Mr B would be able to repay the credit in a sustainable way?

There's no set list for what reasonable and proportionate checks are, but I'd expect lenders to consider things such as the amount, duration, and payments of the finance being applied for, as well as the borrowers' personal circumstances at the time of each application.

In their complaint response letter of 13 May 2024, CAF explained there were "*no issues flagged with respect to [your] address, credit file or your affordability.*" They went on to explain that Mr B was registered on the electoral role on the property he declared to be his address, that he had a disposable income of £1,934 (which had been verified by current account turnover), and that he had low credit usage. So, they considered they had carried out reasonable and proportionate checks.

CAF have provided a summary of the credit file they checked at the time, and this shows two communication suppliers accounts, one car insurance account, and a current account. All of these were well conducted, with no missed payments, no defaults or CCJs, and no exceeding of any overdraft limit. They have also provided a copy of the application form Mr B completed, showing he was employed for five years at the time, earning £25,000 a year. They also said he'd declared he was living at home with his parents – something that was confirmed by the electoral role details.

CAF have said they verified Mr B's income through his current account turnover to be £25,008 a year, which gave him a disposable income of £1,934 a month. However, allowing for the income tax and national insurance rates applicable at the time Mr B applied for the finance, a verified income of £25,008 would only result in a net income of around £1,750 a month. What's more, the credit file summary provided doesn't show how much Mr B was paying to either of his communication suppliers, or to his car insurance.

Furthermore, there's no evidence CAF asked Mr B how much (if anything) he paid his parents for board, nor did they ask him about any other regular commitments he may have, and there doesn't seem to be any consideration of the costs of running a car.

So, given this was a long term commitment of almost £400 a month, I'm not satisfied that CAF carried out reasonable and proportionate checks to confirm that the finance they approved was sustainably affordable for Mr B. As such, I've gone on to consider what CAF would likely have found had reasonable and proportionate checks been carried out.

Would reasonable and proportionate checks have shown that Mr B would be able to repay the credit in a sustainable way?

Mr B has also provided copies of his bank statements for the period 23 July to 21 October 2022. While I wouldn't have expected CAF to have asked Mr B for copies of these, I'm satisfied that these statements would give a good indication of what CAF would likely have taken into consideration had they asked Mr B to prove his income and committed expenditure during that specific period.

The bank statements show that Mr B's monthly income was actually around £650 a month. From this he paid around £43 a month for his mobile, £39 a month for a TV package, and £58 a month for his car insurance. So, the committed expenditure showing on the credit file CAF obtained came to £140 a month, reducing any disposable income to £510 a month.

There is nothing showing on the bank statements as a transfer to his parents for board, but he regularly withdrew £300 a month, on or around the same day each month, which would account for this. However, even if I were to disregard this amount, after deducting the payment to CAF, Mr B would only have been left with £139 a month for food, fuel, clothing, and other expenses (including those associated with the running costs of a car).

As such, I'm satisfied that, had CAF carried out reasonable and proportionate checks, then they would've found that Mr B couldn't reasonably afford the finance they approved. So, they need to do something to put things right.

Did CAF act unfairly or unreasonably in some other way?

When the car was returned to CAF, it was examined for damage that fell outside of normal in-service wear and tear. This is standard practice, so CAF didn't act unreasonably by doing this. CAF have said the car was classified as a 'grade 3' due to its condition, but the associated vehicle damage report only refers to chips on the front bumper. However, the photos of the car taken at the point of collection don't show any chips (or any other damage).

What's more, according to the information supplied by CAF, paint chips on the front bumper aren't consistent with a grade 3 classification, which would require separate areas of damage of more than 20mm across five different body panels, or separate areas of damage over 30mm across three different body panels, or significant trim or parts damage. Again, this level of damage isn't identifiable on any of the photographs provided. As such, I'm not satisfied CAF acted fairly when classifying the car as a grade 3.

Mr B has said that his new insurance premiums may be higher because CAF were reporting missed payments and a default. However, CAF aren't responsible for the insurance companies pricing model, and what factors determine the premium charged. So, I don't think CAF have acted unfairly in this regard.

Putting things right

As I've said above, I'm satisfied that, if CAF had conducted reasonable and proportionate checks, then they wouldn't have agreed the finance Mr B applied for. So, I don't think it's fair that Mr B is charged any interest or charges. And, for the reasons also previously given, I don't think it's fair that he pays for any damage to the car when it was returned, including being liable for any loss in value at auction due to the car being misclassified as a grade 3.

However, Mr B did have use of the car while it was in his possession, and it's only fair that he pays for this. The investigator explained why they thought it would be fair for Mr B to pay CAF £233.12 for each month he was in possession of the car – a total of £3,496.80 – to account for that usage. While there isn't an exact formula for working out fair usage, I'm satisfied this payment is fair so it's something I'll be asking Mr B to pay.

I also think Mr B should be compensated for the distress and inconvenience he was caused. But crucially, this compensation must be fair and reasonable to both parties, falling in line with our service's approach to awards of this nature, which is set out clearly on our website and so, is publicly available.

I note our investigator also recommended CAF pay Mr B an additional £700, to recognise this. And having considered this recommendation, I think it's a fair one that falls in line with our service's approach and what I would've directed, had it not already been put forward.

I think this is significant enough to recognise the worry and upset Mr B was caused as a result of the lack of support he received from CAF, despite providing them with specific medical evidence indicating his needs. So, this is a payment I'm directing CAF to make.

Therefore, if they haven't already done so, CAF should:

- recalculate the agreement to show that Mr B should only pay them a total of £3,496.80 to account for the fair usage he had of the car;
- remove any adverse information relating to the agreement from Mr B's credit file; and
- pay Mr B an additional £700 to compensate him for the trouble and inconvenience caused by being irresponsibly provided with finance (CAF must pay this compensation within 28 days of the date on which we tell them Mr B accepts my final decision. If they pay later than this date, CAF must also pay 8% simple yearly interest on the compensation from the deadline date for settlement to the date of payment[†]).

CAF should calculate how much Mr B would've owed, after the adjustments above. They should then deduct any repayments Mr B has paid since the agreement started.

If Mr B has paid more than the adjusted balance, then CAF should:

- refund any surplus balance to Mr B; and
- apply 8% simple yearly interest on the refund, calculated from the date Mr B made the overpayments to the date of the refund[†].

However, if any outstanding balance remains, then CAF should:

- if applicable, recover any debt back from any third-party to whom it may've been sold to OR liaise with the debt owner to ensure that all steps are undertaken; and
- arrange an affordable repayment plan with Mr B, while taking into consideration the FCA requirements to treat Mr B's financial difficulties with forbearance and due consideration (in this situation, due to Mr B's concerns about any strain this will put

on his finances, he may choose to allow CAF to apply any/all of the £700 compensation against the amount owing).

[†]HM Revenue & Customs requires CAF to take off tax from this interest. CAF must give Mr B a certificate showing how much tax they've taken off if he asks for one.

My final decision

For the reasons explained, I uphold Mr B's complaint about CA Auto Finance UK Ltd. And they are to follow my directions above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 2 September 2025.

Andrew Burford
Ombudsman