

The complaint

Mrs L, who is represented by a third party, complains that First Response Finance Ltd ('First Response'), irresponsibly granted her a hire purchase agreement she couldn't afford to repay.

What happened

In June 2020 Mrs L acquired a used car financed by a hire purchase agreement from First Response. The amount of credit was £10,000. Mrs L was required to make 61 monthly repayments of £266.57. The total repayable under the agreement was £18,089.76. Mrs L used her existing car to provide a deposit by way of a part exchange value of £1,189.99.

Mrs L says that First Response didn't complete adequate affordability checks. She says if it had, it would have seen the agreement wasn't affordable. And as a result, her financial situation got worse. First Response didn't agree. It said that it carried out a thorough assessment at the time.

Our investigator recommended the complaint be upheld. He thought First Response ought to have carried out better checks. Had it done so, it would have seen that the agreement was unlikely to be affordable for Mrs L.

As First Response said it didn't agree, the complaint has been passed to me for a decision.

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 unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mrs L's complaint.

Having done so, I'm upholding this complaint for broadly the same reasons as our investigator. I will explain why.

First Response says it carried out a detailed evaluation before agreeing to the finance to ensure that Mrs L would be able to afford the repayments and continue to do so on a sustainable basis. This included looking at what Mrs L said as part of the application process and checking her credit record. First Response also relied on statistical information to work out what Mrs L had to find money for each month for key things such as household costs, daily living costs and credit she already owed.

For Mrs L's income, First Response used the net figure of £1,633 net per month. This was based on what she'd told them about her current work situation, although she also said that it would soon be improving.

Mrs L's credit file showed she owed unsecured credit of around £6,700. Of note here was that around £4,000 of that came from home credit accounts. The substantial amount of

home credit use is a potential a point of concern, being a largely unregulated form of credit. Although the repayment period for such agreements is usually just a few months, they can sometimes last for much longer. Mrs L appears to have had four active home credit accounts which she'd been using going back to at least mid-2014. I think this factor alone ought to have prompted First Response to ensure its checks were thorough.

I've also seen that Mrs L had defaulted on some credit in the past, but I think that was sufficiently long ago not to be a concern for First Response, in the specific circumstances of Mrs L's application.

First Response says it also asked Mrs L about her regular monthly expenditure. Aside from what the credit check showed, Mrs L said she was allowing around £400 each month to meet her existing credit commitments.

First Response agreed to lend to Mrs L based on the credit check, statistical information and what Mrs L told them in her application. As part of the application process it also obtained open banking information. However – and crucially – I haven't seen enough to be satisfied that it considered or took that information into proper consideration.

Mrs L was taking on a significant new financial commitment for five years. First Response needed to be assured that not only could she afford each repayment over that time, but that she was able to do so in a sustainable way.

So I agree that in the specific circumstances of this complaint First Response didn't complete proportionate checks.

I think First Response had to hand information that would have given it a better indication of Mrs L's monthly income and outgoings. As it doesn't look to me that First Response placed enough, if any, reliance on it, I've considered what it all shows. And having done so, I'm in agreement with our investigator that the new agreement didn't appear likely to be affordable for Mrs L.

The open banking breakdown includes full details of Mrs L's spending from March to May 2020, being the run-up to the finance being granted. My own calculations are in line with what our investigator found. Whilst her total income went from around £1,600, up to £1,950 and then down to £1,600 again, her spending went from around £1,700 to just over £1,500 and then just under £1,600. As our investigator said, that means she had an average disposable income of £122. So, whilst she may have had enough disposable income to meet the monthly repayment for one of those months, she would have had a shortfall for the other two months. It follows that I agree with our investigator that based on what can be seen in the open banking breakdown, most months Mrs L would be likely to struggle to find sufficient funds to meet the new agreement. I also think this raises questions about whether, going forwards, Mrs L would be able to meet the new repayments on a sustainable basis. And that's something I think First Response ought to have seen.

When responding to our investigator's finding, First Response said that Mrs L's income situation at the time, whilst complex, looked to be one that would improve, but that it was still cautious in its consideration of her application. However, the position remains that First Response had information to hand in the form of the open banking breakdown that showed Mrs L's actual monthly income was lower than the figure of £1,633 she'd said she was receiving each month. First Response therefore failed to use the information to hand in the way I would have expected it to ensure the lending was likely to be affordable.

First Response also said that Mrs L's good employment history – at least up to October 2024 – showed that the agreement was affordable for her. In making my decision I have to look at

the information that was available, or likely to have been available, to First Response at the time it was dealing with her, rather than relying on hindsight. Had First Response looked at all the available evidence and information in proper detail, it might have reconsidered granting the finance, revised its offer or made further enquiries.

To summarise, I think all this demonstrates that Mrs L was unlikely to have sufficient disposable income available to her to be able to sustainably afford the monthly repayments due under the new agreement. First Response ought to have recognised that Mrs L's financial situation was at risk of further deterioration by taking on the new agreement. I therefore don't consider it acted fairly by approving the finance.

I've considered whether the relationship between Mrs L and First Response might have been unfair under S.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below should be carried out for Mrs L results in fair compensation for her in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right – what First Response needs to do

As I don't think First Response ought to have approved the lending, I don't think it's fair for it to be able to charge any interest or charges under the agreement. Mrs L should therefore only have to pay the original cash price of the car, being £12,389.99. Anything Mrs L has paid in excess of that amount should be refunded as an overpayment.

To settle Mrs L's complaint First Response should do the following:

- Refund any payments Mrs L has made in excess of £12,389.99, representing the original cash price of the car. It should add 8% simple interest per year* from the date of each overpayment to the date of settlement.
- Remove any adverse information recorded on Mrs L's credit file regarding the agreement.

*HM Revenue & Customs requires First Response to take off tax from this interest. First Response must give Mrs L a certificate showing how much tax it's taken off if Mrs L asks for one.

My final decision

I uphold this complaint and direct First Response Finance Ltd to put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs L to accept or reject my decision before 24 September 2025.

Michael Goldberg
Ombudsman