

The complaint

Miss P complains that Mitsubishi HC Capital UK Plc, trading as Novuna Personal Finance, irresponsibly lent to her.

What happened

Miss P took out a 48-month fixed sum loan for £5,000 from Novuna in November 2024. The monthly repayments were £151.40.

Miss P says she was in a spiral of debt and Novuna did not carry out proper checks. Novuna disagrees, saying its checks were adequate and showed Miss P could afford the loan.

Our investigator upheld Miss P's complaint. He said the lender's checks were not proportionate and better checks would have shown she was overly reliant on credit so further lending would be irresponsible.

Novuna disagreed with this assessment and asked for an ombudsman's review. It said Miss P said the loan was for debt consolidation, so it was reasonable to expect her to do this. Its assessment showed she would have £926.74 of income remaining each month, after taking on this loan. Based on national statistics this would adequately cover her essential living costs, so it was fair to lend. It did not agree Miss P was over-indebted and asked what the regulatory metric is in this regard.

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 am upholding Miss P's complaint. I'll explain why.

Novuna will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don't consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

I need to decide if Novuna carried out fair and proportionate checks before lending; if not what would better checks most likely have shown; and if it did, was the lending decision it then made fair?

Novuna asked Miss P for her annual income, employment status and residential status when she applied. It says it verified her income via the credit reference agencies, concluding her monthly net income would be £3,209.75. It carried out a credit check that showed her monthly mortgage was £981 and she had £34,400 of unsecured debt with estimated monthly credit commitments of £1,143.61. She was up to date with all her repayments and had no adverse data such as CCJs or defaults registered against her. It asked about the purpose of the loan which was debt consolidation.

Novuna concluded after Miss P's existing commitments and the repayments for this new loan she would be left with £926.74 to cover her other living expenses. It felt this to be reasonable for someone in her circumstances and so gave the loan.

I am not persuaded these checks were proportionate given the amount of credit Miss P already had. Here, I think Novuna needed to carry out a fuller financial review before lending. In cases like this we look at bank statements for the three months prior to application. I am not saying Novuna needed to do exactly this, but it is a reliable way for me to recreate what better checks would most likely have shown.

Her statements show her average monthly income was slightly lower at £2,906.56. So, she was already spending around 40% of her income on unsecured credit and almost 75% of her income when her secured commitments are taken into account. They also show other incomings as Miss P had taken out a loan for £5,000 in August 2024 and £4,300 in September 2024, making this her third loan in a short period of time. The statements also show frequent use of buy-now-pay-later plans which can at times, though not always, indicate financial strain. In the round though I think had Novuna carried out better checks it would have been concerned that Miss P seemed dependent on credit to the extent that any further lending could be financially harmful.

I have thought carefully about the fact that this loan was for debt consolidation. Novuna is right that we typically find it is reasonable for a lender to rely on an applicant's declared loan purpose. So, it could assume here that the borrowing was not incremental. However, in the scenario where the application is for the third loan in four months, and the fifth in ten months. I would expect the lender to identify a concerning pattern of taking out loans and shortly afterwards needing to borrow again to make other repayments. This loan was for a small proportion of Miss P's debt so she would still need to be able to manage a number of other repayments – and it seemed she had only been able to do this during 2024 by opening up new agreements. With the amount of her income now committed to repayments this was not sustainable. So, I can't see Novuna had the assurances it needed that there was no risk that giving this loan to Miss P would not cause her financial harm.

To answer Novuna's question about any 'over-indebted metric' in the regulations, as I'm sure it knows there is no prescribed metric. But the regulatory obligations in CONC 5.2A.12 (R) parts 3) to 5) make it clear that a lender must consider the customer's ability to make repayments under the agreement without having to borrow to repay, missing any other repayments or suffering some other adverse financial consequence. As I've said, I am not satisfied Novuna has demonstrated it knew this.

It follows I find it was wrong to lend to Miss P.

Putting things right

As I've found Miss P should not have been given this loan it's not fair she pays interest and charges on it. It is reasonable she repays the capital as she had the benefit of that money.

So Novuna should:

Add up the total repayments Miss P has made and deduct these from the total amount of money Miss P received.

a) If this results in Miss P having paid more than she received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement)*. Novuna should also remove all adverse information regarding this account from Miss P's credit file.

b) If any capital balance remains outstanding, then Novuna should arrange an affordable and suitable payment plan with Miss P. Once Miss P has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

*HM Revenue & Customs requires Novuna to take off tax from this interest. Novuna must give Miss P a certificate showing how much tax it's taken off if she asks for one.

I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Miss P 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.

My final decision

I am upholding Miss P's complaint. Mitsubishi HC Capital UK Plc, trading as Novuna Personal Finance, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P to accept or reject my decision before 5 January 2026.

Rebecca Connelley
Ombudsman