

The complaint

Miss C is complaining about 247 Money Group Limited (247). She says they shouldn't have lent to her because the repayments weren't affordable.

What happened

In March 2022, Miss C took out a hire purchase agreement with 247 to finance the purchase of a car. She paid no deposit and borrowed £8,394 – the cash price of the vehicle. The agreement required Miss C to make 60 monthly repayments of £292.82.

Miss C complained to 247 in October 2022, saying they'd mis-sold her the hire purchase agreement because it was unaffordable for her.

In response, 247 said they'd checked Miss C's credit file at the time, which had informed the Annual Percentage Rate (APR) they charged Miss C and told them how much she was paying towards credit commitments each month. They said they'd confirmed Miss C's income was £2,000 net each month by looking at her payslips and at documentation proving her level of benefits. 247 also said they used Office for National Statistics (ONS) data to estimate Miss C's spending. They calculated her monthly maximum contractual payment as £872 so they felt the actual monthly contractual payment of £293 was affordable for her. 247 also said they'd had a phone conversation with Miss C in which she said she planned to settle her existing hire purchase agreement in full and confirmed there weren't any foreseeable negative changes in her financial circumstances. So they didn't uphold her complaint.

Miss C brought her complaint to our service, adding that she already had a hire purchase agreement with a different lender when this lending decision was made and she didn't feel that had been taken into account. She also said she's now had a County Court Judgment (CCJ) in relation to nursery fees as she's had to prioritise making the repayments to 247.

One of our investigators looked into the matter but didn't uphold Miss C's complaint. He said he wasn't satisfied 247 had completed proportionate checks but he felt the agreement was likely affordable for Miss C and 247 could have fairly decided to lend to her.

Miss C appealed our investigator's view. She said the car she had on the previous hire purchase agreement had been written off and she was desperate for a car at the time. She said ONS statistics aren't accurate because she has twins (as well as another child) which is more expensive than having two children of different ages. Miss C also said she didn't have cooking facilities at home so had to eat out and was served a section 21 because she was failing to pay her rent. She asked for an ombudsman's decision – and the complaint's come to me.

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, and recognising it'll be disappointing for Miss C, I'm not upholding her complaint. My reasons are broadly the same as our investigator's – I'll explain below.

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 247 carry out proportionate checks?

247 said they carried out the following checks:

- reviewed Miss C's credit file;
- checked her income to payslips and benefits documents;
- used ONS data to estimate Miss C's expenditure; and
- spoke with Miss C on the phone to confirm affordability and settlement of the existing hire purchase agreement.

Whether or not these checks were proportionate depends on various factors, including the size and length of the loan, and the cost of credit – which was high. Miss C was largely dependent on benefits, and the repayments on the hire purchase agreement were around 15% of her income. So the checks needed to be thorough.

247 haven't provided their copy of Miss C's credit file but they told us it showed Miss C had one credit card with a balance of £159, three current accounts, and one hire purchase agreement. The hire purchase agreement had monthly repayments of £187. They said they hadn't seen any evidence of missed payments or overdraft usage.

Miss C has provided a copy of her credit file to us so I've looked at what that said about her profile at the time of the lending decision. This showed Miss C had a credit card with a small balance and no payment issues in the last two years. But it also showed Miss C had defaulted on two accounts in the last six months – one in February 2022 and one in November 2021. This suggests Miss C might have had some difficulty with finances.

Because of the defaults I'm not satisfied 247 acted reasonably in relying on ONS data for Miss C's expenditure. The defaults are a potential indicator that her expenditure was higher than her income – and higher than the ONS data suggested. I've listened to the call between 247 and Miss C, and there was no discussion of the affordability of the agreement for Miss C or of her expenditure – instead the call sounded very much like a formality. Miss C did confirm on the call that she intended to settle her existing hire purchase agreement.

In summary, I don't think 247 did reasonable and proportionate checks when assessing whether the agreement was affordable for Miss C. She had a relatively low income, was borrowing a significant amount of money over a five year period, and there were indicators from her credit file that she was struggling to meet her financial commitments. This combination of factors should have prompted 247 to ask Miss C more questions about her financial circumstances.

What would 247 have found if they had done proportionate checks?

A proportionate check would have involved 247 finding out more about Miss C's expenditure to determine whether she'd be able to make the repayments in a sustainable way.

I've looked at statements for Miss C's bank accounts for the three months around the time of her application to 247. I'm not saying 247 needed to obtain bank statements as part of their lending checks. But in the absence of other information, bank statements provide a good indication of Miss C's financial circumstances at the time the lending decision was made.

I've also considered Miss C's own statement of her expenditure, which is undated but seems to be based on her circumstances more recently. Looking at both together, I'm satisfied 247 could have fairly decided to lend to Miss C if they'd done more checks – I'll explain why.

Miss C's statement of her monthly expenditure on essentials totals £2,015 per month – almost exactly the same as her monthly income. This includes around £550 for rent, council tax and water, £270 for gas and electricity, £120 for TV, £349 per month for hire purchase repayments, £300 for housekeeping and food etc, £320 for travel expenses and £100 for children's clothing.

Whilst most of these amounts look to be a reasonable reflection of Miss C's expenditure at the time, I don't think this is true of her estimates of gas and electricity costs or hire purchase repayments. From her bank statements I can't see that she was spending more than £120 per month on bills. And in relation to the hire purchase repayments, 247 were expecting Miss C to settle her existing hire purchase agreement so only needed to account for the new one – reducing the figure of £349 per month to £293 per month. Making these changes reduces Miss C's total monthly expenditure on essentials from £2,015 to around £1,810.

With income of £2,000 per month and non-discretionary expenditure of around £1,810 per month including the new agreement, Miss C would have had net disposable income of around £190 per month for emergencies and non-essential spending. On that basis I think 247 could have fairly decided to lend to Miss C if they had done proportionate checks.

I appreciate Miss C doesn't agree that she had disposable income at the time and instead says she was struggling financially. But I have to consider what 247 would have found if they'd done reasonable and proportionate checks – and from the evidence I've seen, I can't say 247 should have realised the agreement would be unaffordable for Miss C.

My final decision

As I've explained above, I'm not upholding Miss C's complaint about 247 Money Group Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 26 October 2023.

Clare King
Ombudsman