

The complaint

Ms W is complaining about Blue Motor Finance Ltd (BMF). She says they shouldn't have lent to her as the loan was unaffordable.

What happened

In July 2019, Ms W took out a hire purchase agreement with BMF to finance the purchase of a car. She paid no deposit and borrowed £4,080, the cash price of the vehicle. The agreement required her to make 60 monthly repayments of £100.26, followed by a final payment of £250.26. She made all her payments on time until November 2020 when the next two direct debits bounced. After that she had small amounts of arrears until around October 2021 when she missed more payments and the arrears started to build up.

In October 2022, Ms W complained to BMF but when she didn't receive a formal response she brought her complaint to our service, saying BMF didn't do enough checks to make sure she could afford the finance. She said BMF's documents said she was a hairdresser at the time of the lending but she'd never been a hairdresser. And she said the documents said she was co-habiting with no dependents whereas she was single with a dependent granddaughter.

BMF replied to the complaint, saying that in the finance proposal Ms W had confirmed her income as a hairdresser was £16,800. They said the process included several warnings about the importance of any information provided being accurate. BMF said they'd used a credit reference agency to check Ms W's credit history and they didn't note any indicators of over-indebtedness. So they accepted Ms W's application in line with their policy.

Ms W remained unhappy so one of our investigators looked into her complaint. Our investigator's view was that BMF hadn't done proportionate checks. But if they had, she said, it's likely they'd have still concluded the loan was affordable for Ms W. So our investigator didn't uphold Ms W's complaint.

Ms W disagreed with our investigator. She said the benefits our investigator had accounted for as Ms W's income included amounts she received for looking after her granddaughter, and she had significant expenditure for doing so. She added that she hadn't been in the right frame of mind at the time of the agreement due to some family difficulties. Ms W asked for a 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 Ms W, I'm not upholding her complaint for broadly the same reasons as our investigator – 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 BMF carry out proportionate checks?

BMF said the only check they carried out was to look at Ms W's credit file. They told us in later correspondence that this was enough in line with CONC 5.2A.15.

CONC 5.2A.15R requires a firm to take reasonable steps to determine or make a reasonable estimate of the customer's current income unless the firm is able to demonstrate that it's obvious in the circumstances that the customer is able to make the repayments. It goes on to say that the firm must take account of that income when making an assessment of affordability. And CONC 5.2A.16G says it's not generally sufficient to rely on a customer's own statement of their income – checking independent evidence is advised.

BMF haven't demonstrated that it was obvious in the circumstances that Ms W would be able to make the repayments. And I haven't seen that they sought any independent verification of Ms W's income. So it follows that I'm not satisfied they did carry out reasonable and proportionate checks.

In addition, Ms W's credit file at the time showed a recent missed payment on her only active credit account – suggesting she may have been experiencing some financial difficulties. This also suggests more checks would have been proportionate – it's an indicator that Ms W's expenditure might already have been exceeding her income at times.

In summary I'm satisfied BMF didn't carry out proportionate checks when deciding to lend to Ms W.

I'm aware Ms W's stated repeatedly that she wasn't a hairdresser and the income shown on her application was incorrect. Whilst I acknowledge what Ms W's said, it hasn't formed part of my decision. As stated above, I think BMF should have checked Ms W's income. If they had, they'd have found it wasn't as high as the application stated – as I've explained below.

If BMF had done proportionate checks, what would they have found?

A proportionate check would have involved BMF finding out more about Ms W's income and expenditure to determine whether she'd be able to make the repayments in a sustainable way.

I've looked at statements for Ms W's main bank account for the three months leading up to her application to BMF. I'm not saying BMF 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 Ms W's income and expenditure at the time the lending decision was made.

The bank statements show that Ms W's income was regular and roughly the same amount each month. On average her net monthly income from various benefits across April to June 2019 was around £1,370. That includes the income she received for looking after her granddaughter instead of working.

Looking at the monthly average of regular payments from Ms W's bank statements, these were limited to car insurance and road tax (total £68), and phone, internet and TV services (total £125). Ms W paid her rent sporadically but her benefits statement showed she was supposed to be paying £370 per month and a statement from the council showed her council

tax came to £16 per month. From the bank statements it seems Ms W spent an average of around £360 per month on groceries and other essentials. Ms W also withdrew significant amounts of cash. She's told us around £100 each month was for gas and electricity and she also had to buy things her granddaughter needed, for which I've allowed £100 per month.

In total then, Ms W's income was around £1,370 per month and her non-discretionary expenditure was about £1,140 per month, leaving her with disposable income of around £231 from which she'd be able to make the repayments on BMF's loan. The repayments were £100 per month, so this would have left £131 per month to cover discretionary spending and running costs of the car. In summary, if BMF had done proportionate checks, I'm satisfied it would have been fair and reasonable for them to decide to lend to Ms W. So I can't uphold Ms W's complaint.

My final decision

As I've explained above, I'm not upholding Ms W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms W to accept or reject my decision before 28 November 2023.

Clare King
Ombudsman