

The complaint

Miss S is complaining about N.I.I.B. Group Limited trading as Northridge Finance (Northridge). She says they acted irresponsibly when deciding to lend to her as the agreement was unaffordable.

What happened

In February 2019, Miss S took out a personal contract purchase agreement with Northridge to finance the purchase of a car. She borrowed £9,667 - the cash price of the vehicle. The agreement required Miss S to make 47 monthly payments of around £175.20 and an optional final payment of £3,016. The total amount payable was £11,250.40. She made repayments on time until October 2020 when she was granted a three-month payment holiday. Most of Miss S's subsequent repayments were on time, with an occasional bounced direct debit. In October 2023, Miss S sold the car, settling the agreement in the process.

In October 2022, Miss S complained to Northridge, saying they should never have lent to her. She said she was a single parent working part time on a low income. She said she owed money to many other creditors at the time of her application to Northridge and took out a loan to consolidate her debts just three months after this agreement started.

Northridge didn't uphold Miss S's complaint. They said they'd noted her income at the time of the application was £17,000 per year. They checked her credit file and saw no financial commitments which might impair her ability to repay. Northridge also said they weren't made aware of anything else that might make it difficult for Miss S to make repayments on the agreement and noted from her credit file that she'd made similar repayments on time for a previous loan agreement. On this basis Northridge felt the application was strong enough to be approved.

Miss S brought her complaint to our service and one of our investigators looked into it. Her initial opinion was that Northridge hadn't done enough to check the agreement was affordable for Miss S, and if they had they'd have seen it wasn't affordable. Northridge disputed this, querying some of Miss S's income, and our investigator wrote a second view saying she thought the agreement would have been affordable for Miss S at the time. So she didn't uphold the complaint. Miss S disagreed. She said our investigator's assessment of her income and expenditure wasn't appropriate. She asked for an ombudsman's decision – and it came to me.

I issued a provisional decision on 7 December 2023. In that, I said:

“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 Northridge carry out proportionate checks?

Northridge said they checked Miss S's credit file before deciding to lend to her. And the details they had from her application showed she was a single tenant with one dependent earning a gross annual salary of £17,000.

Northridge haven't described any other checks. I haven't seen anything to suggest they verified Miss S's income. I appreciate Northridge say Miss S signed to say her income was accurate. But CONC 5.2A.16 G says "it is not generally sufficient to rely solely on a statement of current income made by the customer without independent evidence..." I haven't seen anything about Miss S's circumstances which suggests it would have been sufficient to rely on her own statement of her income at the time.

Northridge also made no attempt to estimate Miss S's expenditure. CONC 5.2A.17 R says a firm must take reasonable steps to determine or estimate a customer's non-discretionary expenditure unless it's obvious in the circumstances that their expenditure is unlikely to have a material impact on affordability. Miss S's circumstances were that she was a single tenant with a dependent, on a relatively low declared income, and with around £9,000 in existing debts according to the credit checks Northridge carried out. On that basis I think it would have been important for Northridge to gain some understanding of Miss S's non-discretionary expenditure before deciding to lend to her.

On balance I'm not satisfied Northridge carried out proportionate checks – I think they should have done more to verify Miss S's income and understand Miss S's expenditure.

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

Proportionate checks would have involved Northridge finding out more about Miss S'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 Miss S's bank account for the three months leading up to her finance application. Miss S has also provided additional information about her circumstances at the time which I've taken into account. I'm not saying Northridge 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 S's income and expenditure at the time the lending decision was made.

Looking at Miss S's income first, she received around £660 per month in benefits, around £625 per month from her employer, and around £200 per month in child maintenance from her child's father. I'm aware there's been some dispute about Miss S's income. Miss S doesn't think any of the payments from her child's father should be taken into account, and Northridge thinks all of these should be included in her income as well as various other receipts shown in Miss S's bank statements. I've thought carefully about this. I have to consider what would have been considered regular income had Northridge done proportionate checks. It looks like the child maintenance payments were around £200 each month. And I think it's fair to include these as this income would have helped with nursery costs and food for Miss S's child, which are factored into my expenditure assessment below. But the other receipts from individuals appear to be gifts and loans rather than regular amounts. So I'm inclined to say Northridge could have fairly used a net income figure of £1,485 per month when assessing affordability.

Turning to Miss S's payments, I can see she made regular payments to creditors of £350 per month. This amount is very similar to the total of the monthly repayments for loans shown on Northridge's copy of the credit file. In addition to these regular payments, Miss S was paying various amounts to creditors for her credit cards and store accounts.

Instead of using the amounts on her bank statements, which vary considerably, I've taken 5% of the balance shown on her credit file for revolving credit – this comes to £107 per month. I think this would have been a reasonable approach for Northridge to have taken. So the total of Miss S's payments to creditors was around £457 per month.

In addition, Miss S had normal living costs for herself and her son. Her rent, council tax and utilities came to around £440 per month, she spent around £100 per month on car insurance and fuel, and £190 per month on nursery fees. She also spent around £170 per month on TV and communications. Miss S said she didn't spend much on food – around £100 - £150 per month. Taking the bottom end of this range would mean Miss S's living costs came to £970 per month. Deducting this and the payments to creditors of £457 from her income of £1,485 suggests Miss S had disposable income of around £58 per month.

Clearly this isn't enough from which to make payments of £175.20. So I'm inclined to say if Northridge had done proportionate checks, they'd have concluded Miss S couldn't afford the repayments on this vehicle and wouldn't have lent to her."

Miss S accepted my provisional decision and Northridge didn't reply.

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.

I've seen nothing to change my view from that set out in my provisional decision. So I'm upholding Miss S's complaint for the reasons explained above. Similarly, the redress set out below is unchanged from that suggested in my provisional decision.

Putting things right

Because I don't think Northridge should have approved the loan, it's not fair for them to charge any interest or other fees under the agreement. But Miss S had use of the vehicle and has now sold it so it's fair she pays the cash price of the vehicle. Northridge should do the following:

- Refund to Miss S all the payments that have been made against the agreement in excess of £9,667, being the cash price of the vehicle, adding 8% simple interest per year from the date of each overpayment to the date of settlement.
- Remove any adverse information recorded on Miss S's credit file regarding the agreement.

If Northridge consider tax should be deducted from the interest element of my award they should provide Miss S a certificate showing how much they've taken off so that Miss S can reclaim that amount, assuming she is eligible to do so.

My final decision

I'm upholding Miss S's complaint. N.I.I.B. Group Limited trading as Northridge Finance need to take the steps I've outlined above to settle the matter.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 5 February 2024.

Clare King
Ombudsman