

The complaint

Mr E is complaining about Startline Motor Finance Limited's decision to lend to him – he says the loan was unaffordable. His complaint was brought to our service by a representative but for ease I've written as if we've dealt directly with him.

What happened

In January 2022, Mr E took out a hire purchase agreement with Startline, via a broker, to finance the purchase of a car. He borrowed £22,480 over a 60-month term, with monthly repayments of £595.17. Mr E first missed a payment in July 2022 and has struggled to maintain payments since.

In August 2022 Mr E complained to Startline, saying they shouldn't have lent to him - but Startline didn't uphold his complaint. They said they support applicants who have a lower credit rating and said they'd done a proper assessment of affordability before deciding to lend to Mr E.

Startline said their systems confirmed Mr E's net monthly income of £3,040 using one of the credit reference agency (CRA) affordability tools. They said the application data showed Mr E was a married tenant and the CRA data they'd looked at showed he had an acceptable payment history with all active accounts being well paid. That included five credit cards, a mail order account, a mobile phone bill and an existing hire purchase agreement. This hire purchase agreement had monthly instalments of around £118 and was required to be settled as a condition of the proposed agreement.

So, they said, they'd completed a reasonable assessment of creditworthiness, identifying no material risk of affordability issues.

Mr E wasn't happy with Startline's response so he brought his complaint to our service. He said Startline had been irresponsible in providing him with finance and had failed to conduct thorough, appropriate and reasonable checks.

Our investigator looked into things and didn't uphold the complaint – she said she thought Startline hadn't carried out proportionate checks but that the agreement was likely affordable for Mr E so Startline hadn't made an unfair lending decision.

Startline accepted our investigator's view overall but commented that they felt they had done proportionate checks. Mr E wasn't happy. He said our investigator's estimate of his disposable income wasn't right. Mr E asked for an ombudsman's decision – and the complaint's come to me. I issued a provisional decision on 17 August 2023 which 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 Startline carry out proportionate checks?

Startline's checks comprised:

- a review of Mr E's credit file including using this to estimate his monthly credit commitments;*
- verification of his income using a CRA affordability tool; and*
- estimating Mr E's cost of living using the Office of National Statistics (ONS) data for a married tenant and using this to estimate his disposable income.*

CONC allows businesses to use statistical data and tools like the CRA affordability tool when carrying out affordability assessments. Whether or not this is proportionate depends on the circumstances of the lending and any other information a business is aware of at the time.

Mr E was looking to borrow a significant amount, with payments of nearly £600 a month for five years. So it was a significant financial commitment. Having said that, Startline had verified his net income at around £3,000 per month, so at first glance it would be reasonable to expect the agreement to be affordable.

I've thought about what information Startline found in the checks they carried out and whether this should have prompted them to do more.

I've looked at Startline's copy of Mr E's credit file. It shows nine open accounts - six credit cards, one hire purchase agreement, one mail order account and a telecoms account. Across these open accounts there were no missed payments and no balances over limit. The total of Mr E's balances was about 85% of the total of his credit limits. So it's fair to say Mr E was managing his active credit well.

In addition, the credit file showed a number of settled accounts. Across these, there were a couple of missed payments back in 2017, but no other indicators of any concern.

The credit file also showed that as well as his active hire purchase agreement, Mr E had been paying £659 monthly against a different hire purchase agreement from September 2020 to December 2021. Taking everything together, the credit file suggested Mr E was managing his credit well and was able to manage a monthly hire purchase payment significantly greater than that being offered by Startline.

Startline also used the credit file to calculate Mr E's monthly credit commitments at £207 (excluding the existing hire purchase agreement which was to be settled). The ONS data suggested his cost of living expenditure would be around £1,749. Startline added to this the credit commitments figure of £207 and the proposed monthly hire purchase repayment of £595 and concluded Mr E's total expenditure would be £2,551. They'd verified Mr E's income at £3,040 so they were comfortable the repayments would be affordable for him.

I'm inclined to say Startline's checks were proportionate. Although the loan and repayments were significant, Mr E had a clean and active credit file, had previously (and recently) kept up to date on a more expensive hire purchase agreement, and his income was significantly higher than his expenditure according to statistical data.

Did Startline make a fair lending decision?

Having concluded that Startline did proportionate checks, I have to think about whether they made a fair lending decision.

I've reviewed Startline's calculations and I can see that they estimated Mr E's monthly credit commitments at 3% of the total of his total credit card balances. I'm inclined to say Startline should have used a higher figure for Mr E's revolving credit repayments – at around 3% this doesn't appear to allow for Mr E repaying these amounts within a "reasonable time period" as required by CONC 5.2A.12R. I think a figure of around 5% would have been more appropriate. This would have increased Mr E's total expenditure to around £2,690, against income of £3,040.

This still allows Mr E disposable income of £350 per month – which is enough to say Mr E would have been able to meet repayments without a significant adverse impact on his financial situation. So I'm inclined to say Startline did make a fair lending 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.

Neither party responded to my provisional decision so my final decision is unchanged from those findings.

My final decision

As I've explained above, I'm not upholding Mr E's complaint about Startline Motor Finance Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 13 October 2023.

Clare King
Ombudsman