DRN-4639664

The complaint

Mrs K, through a representative, says Mitsubishi HC Capital UK Plc, trading as Novuna Personal Finance, irresponsibly lent to her.

What happened

Mrs K took out three loans from Novuna as set out below.

loan	taken out	value, £	term in months	monthly repayment, £	status
1	30/10/2020	25,000	72	395.75	reduced payment plan from August 2023
2	31/05/2022	4,000	53	97.10	repaid in full January 2023
3	31/12/2022	9,000	72	148.91	reduced payment plan from August 2023

She says Novuna failed to complete proportionate checks to ensure she could sustainably repay the loans. She asks for all interest and charges to be refunded, with interest, and for any related adverse data to be removed from her credit file.

Novuna says it used and verified information Mrs K provided on her applications, as well as data from a credit reference agency and an external affordability tool to ensure Mrs K could afford the loans without any struggle.

Our investigator did not uphold Mrs K's complaint. He said Novuna's checks were proportionate and did not show any signs that the loans would be unaffordable for Mrs K.

Mrs K disagreed and asked for an ombudsman's review. I reached the same conclusion as the investigator but made some different findings. So I issued a provisional decision to give both parties a chance to comment. An extract follows and forms part of this final decision. I asked both parties to send any comments by 22 February 2024.

Extract from my provisional decision

Before entering into a credit agreement, Novuna needed to check that Mrs K could afford to meet her repayments out of her usual means for the term of the loans, without having to borrow further and without experiencing financial difficulty or other adverse consequences. The checks Novuna carried out needed to be proportionate to the nature of the credit (the amount borrowed or the term, for example) and to Mrs K's particular circumstances.

The overarching requirement was that Novuna needed to pay due regard to Mrs K's interests and treat her fairly. With this in mind, my main considerations are did Novuna complete reasonable and proportionate checks when assessing Mrs K's loan applications to satisfy itself that she would be able to make her repayments without experiencing adverse consequences? If not, what would reasonable and proportionate checks have shown and, ultimately, did Novuna make fair lending decisions?

For each loan Novuna completed the same checks. It asked Mrs K for her employment status and annual income. It used an external income verification tool to check what she declared. It carried out a credit check to understand Mrs K's credit history and credit commitments, from this it calculated a credit score using its internal lending criteria. It also checked her residential status and mortgage payment. It took into account 50% of that cost based on her marital status. Based on the evidence submitted I cannot see it asked about the purpose of the loans.

From these checks combined Novuna concluded Mrs K would be able to afford each loan as she would have on average of £1,087 income each month to cover living costs and other monthly expenses it had not checked. And this was above the national average.

Loan 1

I am not persuaded these checks were proportionate for loan 1. I say this based on the term and value of the loan, but also based on the fact that Novuna learnt from its credit check that Mrs K was already spending a high proportion of her salary (35%) each month on unsecured credit and this loan would increase that figure to almost half her salary. Spending such a significant proportion of income on credit can be an indicator of future financial difficulties. So in these circumstances I think Novuna needed to carry out a fuller financial review to get the assurances it needed that Mrs K would be able to repay the loan sustainably.

In cases like this we look at the applicant's bank statements for the three months prior to lending. I am not saying Novuna had to do exactly this but it is a reliable way for me to understand what better checks would most likely have shown Novuna.

I don't find that better checks would have meant Novuna ought to have made a different lending decision. I'll explain why. It seems Mrs K had the means to take on loan 1 and her bank statements show none of the typical signs of financial strain – such as reliance on an overdraft facility, returned direct debits, informal borrowing from family and friends or the use of payday loans. I note she had other current accounts but I am satisfied she has shared her primary account as it is where her salary was paid into and general living costs came out of.

I also note that whilst Mrs K had a relatively high level of unsecured debt, over 60% of it was car finance. She was up-to-date on all her credit accounts, three of her credit/store card accounts had a nil balance and one was in credit, so her overall credit utilisation was not close to her limit.

Mrs K argues that the credit she took on after loan 1 shows that she became dependent on borrowing but I would disagree. She took on new car finance (but settled the previous agreement) and a new mortgage. One agreement appears to be a low value insurance product and she opened a new current account with no overdraft facility (over two years later). So I do not agree that these new accounts illustrate that loan 1 triggered a dependence on credit.

In the round I am satisfied that Novuna could fairly have made the same lending decision had it carried out proportionate checks.

It follows I do not think Novuna was wrong to give loan 1 to Mrs K.

Loans 2 and 3

Given the lower values of these two loans I think the checks Novuna carried out were proportionate. Mrs K was also making her contractual payments in full and on time for loan 1 (and for loan 2 at the time of loan 3). And based on the results of its checks I find Novuna *made fair lending decisions. Again Mrs K would be spending a high proportion of her salary on credit, but she had shown this to be sustainably affordable for her in the previous 18 and 24 months.*

The credit checks showed no deterioration in how Mrs K was managing her finances and Novuna's affordability assessments showed higher disposable income (after housing and credit costs) than at the time of loan 1: £1,091.03 for loan 2 and £1,142.35 for loan 3. Again the bulk of Mrs K's borrowing was car finance and she had a number of cards with zero balances. The one she was using at the time of loan 3 had a low credit utilisation of around 30%. In the round I do not think there were any signs of financial strain that ought to have led Novuna to make different lending decisions.

It follows I do not think Novuna was wrong to give loan 2 or 3 to Mrs K either.

I am sorry Mrs K went on to have financial difficulties, but this does not change my conclusion that based on the proportionate checks it carried out (and for loan 1 based on what such checks would most likely have shown) Novuna did not lend irresponsibly. I can see Novuna has agreed reduced payment plans with Mrs K and I hope she now has the support she needs.

Neither party responded to my provisional 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.

I've also had regard to the regulator's rules and guidance on responsible lending (set out in its consumer credit handbook – CONC) which lenders, such as Novuna, need to abide by. Novuna will be aware of these, and our approach to this type of lending is set out on our website.

As neither party submitted any comments or new evidence following my provisional decision I have no reason to change the findings or outcome set out above. It follows I do not find Novuna was wrong to lend to Mrs K.

My final decision

I am not upholding Mrs K's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs K to accept or reject my decision before 25 March 2024.

Rebecca Connelley
Ombudsman