

The complaint

Mr S is unhappy Mitsubishi HC Capital UK Plc trading as Novuna Personal Finance (Novuna) declined his application for finance and were then unhelpful in explaining the reason why he was declined.

What happened

I issued my provisional findings to both parties on 21 February 2024 setting out why I thought Mr S's complaint should be upheld and invited both parties to provide any further submissions in reply to my provisional decision by 6 March 2024.

The background to this complaint was set out in my provisional decision together with my provisional findings. The background and my provisional findings are copied below and now form part of this final decision.

Background

In early June 2023 Mr S needed to replace his boiler and arranged an appointment with an energy supplier (Company B).

Company B suggested to Mr S he could arrange interest-free credit to cover the costs, and so Mr S submitted an application for an interest-free fixed-sum loan agreement to Novuna. The loan was for £8,479 to be repaid over 24 months with monthly instalments of £353.32. Novuna declined Mr S's application and referred him to contact the three main credit reference agencies (CRA).

Concerned that his credit file may have been fraudulently accessed or his identity impersonated, Mr S contacted the CRAs and confirmed there was nothing wrong with his credit file. Mr S therefore contacted Novuna to ask why he had been declined the loan.

Novuna replied to say they required Mr S's last three months bank statements for the account which would be used to make the loan payments, as well as proof of his income/pension. Novuna would then conclude their review of Mr S's application.

On 13 June 2023 Mr S told Novuna he had no intention of now entering into a credit agreement with them and asked again why he had been refused credit.

On 15 June 2023 Mr S again asked Novuna to explain why he'd been declined credit. Novuna then raised the matter with their complaint department.

After investigating Mr S's complaint, Novuna told Mr S the application had been declined on affordability grounds, namely because the amount of borrowing was nearly half of Mr S's declared income. Novuna explained their underwriter should not have declined the application when they did (or using the letter they did) as Mr S should have been approached for further evidence to support his application. Novuna also explained to Mr S that a search would show on his credit file, but it would not show other organisations if an application had been accepted or declined. Novuna apologised for what had happened and

offered Mr S £60.

Mr S didn't accept Novuna's conclusions. He said the matter had caused him a lot of worry as he had been concerned that his finances had been corrupted. Mr S said he knew his credit file was in excellent shape, so he assumed there had potentially been some sort of identity fraud. Mr S also felt strongly that Novuna should tell Company B about their failings in this matter. Mr S did not accept the £60 as he felt it was insulting.

Novuna maintained their position and confirmed they needed to report accurately to the CRAs and there was no requirement for them to send Company B anything further. They said Company B would have been aware the application was declined, but Novuna didn't need to provide Company B with a reason.

Mr S confirmed he paid 50% of the sum owed to Company B from his bank account on 14 June 2023, and the remainder after the works were finished in September 2023. The funds were taken from his bank account.

Our Investigator concluded Novuna's offer was fair in the circumstances. Mr S was unhappy with the Investigator's conclusions so the matter has been passed to me to decide.

My provisional findings

Before I set out my findings I think it would be helpful to explain the role of the Financial Ombudsman Service is to resolve individual complaints based on what is fair and reasonable in the circumstances of each case. So it is not for this service to interfere with a firm's processes, systems or controls, nor fine or punish businesses – that is for the regulator, the Financial Conduct Authority (FCA), to consider.

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I've only included a summary of what's happened above, but I've reviewed all the submissions made available from both parties and will refer to submissions in more detail where I consider them to be relevant to resolving this matter.

I acknowledge Mr S's strength of feeling about what's happened, particularly due to what he's said about never having been refused credit and that he initially had no intention of taking out the loan. I understand these events caused Mr S much worry in terms of whether someone had impersonated him to cause financial harm, and in terms of how his financial standing would be viewed by other organisations in light of the failed application.

Mr S only sought the loan from Novuna because Company B had made him aware of it. His initial intentions had not been to arrange credit for the boiler works. Mr S was able to pay for the works himself, but decided to take advantage of the interest-free loan rather than tying up his capital. Mr S says he has therefore lost out on receiving interest on the funds he ended up using after the loan was declined.

I can understand Mr S's decision to take advantage of the interest-free loan, and I accept he had the funds available to him to pay for the works in full without the credit. But I am also mindful of the obligations upon Novuna to lend responsibly, and that several considerations would form part of that decision making including an assessment of an individual's monthly income and expenditure to determine their ability to make the monthly payments.

Novuna have since explained their concern was that Mr S was looking to borrow half his yearly income, but they accept that rather than immediately declining the application their

underwriter should have approached Mr S for evidence to support his application. So they accept something went wrong here.

As I've noted above, Mr S then chose not to engage with Novuna any further, so he did not provide the evidence requested. In the circumstances, it is therefore not possible for me to know whether Mr S's application would or would not have been successful had he provided the required evidence. Ultimately, the decision to lend rests with the creditor, not this service.

The declination of the loan caused Mr S a great deal of worry as Novuna said he should approach the CRAs, and so Mr S was initially concerned something had happened to his identity. After satisfying himself that was not the case Mr S sought to understand the reason for his application being declined. Unfortunately Novuna were unhelpful in responding to Mr S's queries about his application, so it was not until his complaint was investigated that it was explained to him what had happened.

I think Novuna unhelpfully told Mr S that he should contact the CRAs. And I think they could have done more to help Mr S understand why the application had first been declined. I think it would've been good industry practice for Novuna to have offered Mr S some sort of understanding as to why his application had been unsuccessful – although I would not have expected them to disclose commercially sensitive information about things such as their underwriting policies, risk appetite etc.

I realise Mr S was looking to take advantage of the interest-free credit. But an application for credit is not guaranteed and is still subject to checks - ultimately it is the lender's decision whether to agree credit. So while I note Mr S's points and his circumstances, I think it would be unreasonable to say the credit had been guaranteed to him at any point, so there was always a chance lending may have been refused.

Taking everything into account I think it's fair to say Mr S had not intended to take out any credit to pay for the boiler works, and only did so because he was told about the opportunity to have interest-free credit. That the application was then declined when it should still have been under consideration, and it followed Company B were made aware of this, did cause Mr S an unexpected embarrassment. Furthermore, due to Mr S being wrongly directed to the CRAs when the loan was initially declined caused him to worry there may have been identity fraud, and so he was put to an unnecessary inconvenience to ensure this had not happened.

Overall, I don't think £60 is enough to reflect the level of distress and inconvenience Novuna caused to Mr S.

I can only hold Novuna responsible for their own actions, and in this case I think they misdirected Mr S to the CRAs when they should have requested evidence from him, and they were then unhelpful in explaining to Mr S why the application had been initially declined.

No amount of financial compensation can now change what has happened, and I am also mindful that Novuna were open to considering Mr S's application further, but he chose not to engage with them, so it's possible he may have been approved the credit he was seeking.

In the circumstances, given the impact this matter has had on Mr S I think £150 is more appropriate to recognise the upset and inconvenience caused to him.

I'm aware this matter is not about the money for Mr S, rather he is seeking a way to ensure his financial standing is fairly reported and he wishes for Novuna to tell Company B about their mistake.

Mr S's credit file will show that a search has been carried out by Novuna, and while other

organisations will be able to see the search they will not be able to know whether the application was accepted or declined. Novuna have said Company B would be aware that Mr S's application had been declined, but not the reasons why. Mr S has said Company B required him to pay 50% of the costs upfront because he had been declined credit. My understanding is that had the application not been declined, then a lower initial deposit would've been required. That said, Mr S would always have had to pay the full amount owed for the works.

I've considered what Mr S has said about Novuna's reporting of this matter, but I'm not going to ask Novuna to do anything here. Mr S's application was never guaranteed, so it followed that when Mr S applied for the credit, there would always have been a search appearing on his credit file. The search does not show if the application was declined or not, so other organisations would not have been aware of whether Mr S's application was successful or not. As far as any other organisations knew, Mr S could, after all, have simply chosen not to go ahead with an application.

Regarding Mr S's standing with Company B, there does not appear to be any requirement for Novuna to have shared with Company B what happened with the loan application. Mr S may take some comfort in knowing he can share Novuna's correspondence or my findings with Company B to show that his application was not in fact completed in full so the declination of the loan was premature.

For the reasons above, I'm not minded to ask Novuna to do any more than recommend they pay Mr S £150 for the trouble these events have caused him.

Responses to my provisional decision

Mr S replied to my provisional decision to say he hoped Novuna would improve their service going forward, and that he would no longer entertain interest-free credit again.

Novuna acknowledged receipt of my provisional decision and confirmed they had nothing further to add.

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.

As both parties have responded to my provisional decision before the deadline of 6 March 2024 I have reviewed the case to set out my final decision.

Neither party submitted any further evidence or submissions for me to consider, so in the circumstances, I see no reason to depart from the conclusions I reached in my provisional decision.

That is, I think in this matter Novuna's engagement with Mr S fell short of where it needed to be, and this caused Mr S unnecessary upset and inconvenience. In the circumstances and for the reasons described above I think £150 is fair to reflect the trouble caused for Mr S.

Putting things right

Mitsubishi HC Capital UK Plc trading as Novuna Personal Finance should pay Mr S £150.

My final decision

For the reasons above, my final decision is that Mr S's complaint is upheld and Mitsubishi HC Capital UK Plc trading as Novuna Personal Finance should put things right as I've described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 1 April 2024.

Kristina Mathews
Ombudsman