

The complaint

Miss R says Mitsubishi HC Capital UK Plc, trading as Novuna Personal Finance, irresponsibly lent to her.

What happened

Miss R took out two loans from Novuna, a summary of her borrowing follows.

loan	taken out	value, £	term in months	monthly repayment, £	repaid
1	20/07/2016	5,000	36	160.12	19/05/2017
2	16/05/2017	10,000	60	237.09	21/08/2018

Miss R says the loans were unaffordable for her. She has suffered with her financial position and mental health as a result.

Novuna initially said Miss R had brought her complaint too late under the rules set out by the regulator and so it need not investigate. This service issued a decision on 2 February 2024 explaining why we could look at the merits of Miss R's complaint. Subsequently Novuna provided some information about the two loans.

Our investigator did not uphold Miss R's complaint. She said Novuna's checks were proportionate for loan 1 and showed the loan would be affordable. And whilst she found better checks ought to have been completed for loan 2, she did not think the results should have changed the lending decision.

Miss R disagreed and asked for an ombudsman's review. In summary, she said at the time of loan 1 her monthly credit commitments were £2,061 and her income was around £2,500 so more credit was not affordable. Novuna did not review her bank statements. And at the time of loan 2 her income was £3,123, her credit commitments were £2,892 and her living expenses were £1,541. So again the loan was unaffordable, even if used for debt consolidation.

I reached a different conclusion to the investigator so I issued a provisional decision. An extract follows and forms part of this final decision. I asked the parties to send any more comments and evidence by 22 May 2024. They both responded ahead of this deadline which allows me to issue a final decision now.

Extract from my provisional decision

For each loan Novuna completed the same checks. It asked Miss R for her annual income. It used an external income verification tool to check what she declared. It carried out a credit check to understand Miss R's credit history and credit commitments. It also checked her residential status and whether she had a mortgage. Based on the evidence submitted I cannot see it asked about the purpose of the loans. From these checks combined Novuna

concluded Miss R would be able to afford each loan. For loan 1 it concluded she would have £1,448.30 remaining income each month to cover living costs and other monthly expenses it had not checked. For loan 2 it says this amount was £2,013.04 though it has not supplied the analysis.

Loan 1

I think these checks were proportionate given the stage in the lending relationship, the term of the loan and the value of the monthly repayments relative to Miss R's income. And I can't see anything in the results of the checks that ought to have led Novuna to decline Miss R's application. The credit check did not show any adverse data and allowed Novuna to calculate that Miss R was spending £638.82 on unsecured credit each month. I would say this is slightly understated as to repay her revolving credit in a reasonable period of time would take the monthly total to £656.70 – but this does not change my finding.

I appreciate Miss R has put forward a much higher figure but I can only fairly expect the lender to respond to the results its checks returned. A lender will not see all the same data as a consumer can on their full credit file – this can be for different reasons, such as not all lenders reporting to all the credit reference agencies and there can be timing lags too. Miss R had declared she was a homeowner with no mortgage and Novuna's credit check supported this. It had verified her income to be £2,247.24 and so I find it was reasonable to conclude the loan would be affordable.

Miss R said that Novuna did not check her bank statements but there is no obligation for it to do so. Whilst checks must be proportionate for the lending and the applicant's circumstances, there is no set list of checks that have to be completed.

In the round I do not think, based on its proportionate checks, that Novuna was irresponsible to give loan 1 to Miss R.

Loan 2

Given the increase in value and term and the proximity to loan 1, I do not think these checks were proportionate. In cases like this we look at the applicant's bank statements from the months prior to the loan and/or their full credit file. I am not saying Novuna had to do exactly this but it is a way for me to reliably recreate what better checks would most likely have shown.

The statements show Miss R's regular monthly income that should have been used for the affordability assessment comprised her salary of £1,363.66 plus net property income of £1,760. From her credit file I can see she was repaying four loans (including her hire purchase agreement) at a combined cost of £1,152 each month. And she had £2,491 of revolving debt across two accounts. This would have cost £124.55 each month assuming a 5% repayment to allow her to clear the balances in a reasonable time frame. So it seems her monthly unsecured credit commitments were £1,276.55. The file also lists three mortgage accounts with monthly repayments totalling £1,124. I note a family member contributed £250 towards these costs, but they all needed to be taken into account if the corresponding rental income was to be included.

Given Miss R already needed to spend almost 70% of her income each month on her consumer credit commitments, I think Novuna ought to have realised that extending more credit to Miss R risked her not being able to repay the loan – or her existing commitments – sustainably. I can see from her statements that she was already reliant on using savings each month to supplement her income. And as a result her savings had declined rapidly over recent months from around £25,000 in November 2016 to £1,180 at the time of this loan,

reinforcing the concern that she was now under financial strain.

In the circumstances I find Novuna was wrong to give loan 2 to Miss R.

I then set out what Novuna would need to do to put things right.

Both parties replied. Novuna said it had nothing further to add and Miss R said she accepted the 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. I have taken it into account to make my decision here.

As neither party submitted any new comments or evidence, I have no reason to change the findings or outcome in my provisional decision.

It follows I find Novuna was wrong to give loan 2 to Miss R.

Putting things right for loan 2

I think it's fair and reasonable for Miss R to have repaid the capital that she borrowed, because she had the benefit of that money. But she has paid interest and charges on a loan that shouldn't have been provided to her.

So Novuna should:

- Refund all interest, fees and charges from the loan and treat all the payments Miss R made as payments towards the capital.
- As reworking Miss R's loan account will result in her having effectively made payments above the original capital borrowed, Novuna should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- Remove any adverse information recorded on Miss R's credit file in relation to the loan.

*HM Revenue & Customs requires Novuna to deduct tax from this interest. Novuna should give Miss R a certificate showing how much tax it's deducted if she asks for one.

My final decision

I am upholding Miss R's complaint in part in relation to loan 2. Mitsubishi HC Capital UK Plc, trading as Novuna Personal Finance, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 13 June 2024.

Rebecca Connelley
Ombudsman