

The complaint

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

Miss S brought her complaint via a representative, for ease of reading I will refer solely to Miss S in this decision.

What happened

Miss S took out a loan for £25,000 over 68 months on 14 January 2022. The monthly repayments were £454.01 and the total repayable was £30,872.68.

Miss S says Novuna failed to conduct proportionate checks and should have done more prior to lending to her.

Novuna says its lending was responsible as its checks showed Miss S could afford the monthly repayments, and it took reasonable steps to verify the information she provided on her application.

Our investigator issued two assessments. I will summarise the second here as that is the latest view of this service. He found that Novuna was wrong to lend to Miss S as she had a significant amount of debt. So there was a high risk she would be unable to sustainably make the repayments based on what Novuna knew at the time of the application. It understood the purpose of the loan was 'other', rather than debt consolidation.

Novuna disagreed and asked for an ombudsman's review. It said even assuming Miss S did not settle any of her other debt; did not share the mortgage costs; and had no contribution from her partner to other living costs, she still had the disposable income to afford this loan.

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, so I won't refer to the regulations in detail here but will summarise them.

Before entering into a credit agreement, Novuna needed to check that Miss S 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 Miss S's particular circumstances. The overarching requirement was that Novuna needed to pay due regard to Miss S's interests and treat her fairly.

With this in mind, my main considerations are did Novuna complete reasonable and proportionate checks when assessing Miss S's loan application 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 a fair lending decision?

I can see Novuna asked Miss S for her annual income. It then used an external income verification tool to check what she declared. It carried out a credit check to understand Miss S's credit history and credit commitments. It also checked her residential status and whether she had a mortgage. It asked about the purpose of the loan, Miss S selected 'other'.

From these checks combined Novuna concluded Miss S would be able to afford the loan. It concluded she would have £1,273.61 remaining income each month to cover living costs and other monthly expenses it had not checked.

I am not wholly satisfied these checks were proportionate given the value and term of the loan, however I won't comment further on this as even based on the information it did gather I do not think Novuna made a fair lending decision. And better checks would not have changed this finding. I'll explain why.

Novuna learnt Miss S's net monthly income was £3,214.43. It knew from its credit check that Miss H had unsecured debt of £48,000 with monthly repayments of £1,217. Giving this loan would increase this to £1,671.01. This meant, even before considering her mortgage commitment, Miss S would be spending over half her income on her credit commitments. At this level I think Novuna, as a responsible lender, ought to have been concerned that there was a high risk Miss S would be unable to sustainably repay her loan without borrowing to repay or suffering some other adverse financial consequences. She was already heavily indebted. And it was required to consider the sustainability, not just the pounds and pence affordability, particularly given the loan term here.

There has been discussion between Novuna and the investigator about the purpose of the loan as Miss S used it for debt consolidation. But Novuna did not know that was going to be the case when it approved the loan, and whether or not that meant its lending would be financially helpful or harmful. And I note she returned to Novuna to borrow a further £23,500.

It follows I find Novuna was wrong to give this loan to Miss S.

Putting things right

It's fair that Miss S should only have to repay the money she borrowed and had the use of. So I think Novuna should refund all of the interest and charges Miss S has paid on this loan.

It must:

- Add up the total amount of money Miss S received as a result of having been given this loan. The repayments Miss S made should be deducted from this amount.
 - a) If this results in Miss S having paid more than they received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement). †
 - b) If any capital balance remains outstanding, then Novuna should attempt to arrange an affordable and suitable payment plan with Miss S.

- Remove any negative information recorded on Miss S's credit file relating to this loan once any outstanding capital balance has been repaid.

†HM Revenue & Customs requires Novuna to take off tax from this interest. Novuna must give Miss S a certificate showing how much tax it's taken off if they ask for one. If it intends to apply any refund to reduce the outstanding balance it must do after deducting the tax.

I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Miss S in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

I am upholding Miss S's complaint. 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 S to accept or reject my decision before 10 January 2025.

Rebecca Connelley
Ombudsman