

Complaint

Mr M has complained about a loan Mitsubishi HC Capital UK Plc (trading as “Novuna” Personal Finance) provided to him. He says he believes proper affordability checks weren’t carried out when he applied for his loan as it lent based on his potential rather than actual earnings.

Background

In November 2022, Novuna provided Mr M with a loan for £5,000.00. The total amount to be repaid of £7,619.04, which included interest, fees and charges of £2,619.04, was due to be repaid in 48 monthly instalments of £158.73.

One of our investigators reviewed what Mr M and Novuna had told us. And he thought that Novuna hadn’t done anything wrong or treated Mr M unfairly. So he didn’t recommend that Mr M’s complaint be upheld. Mr M disagreed and asked for an ombudsman to look at his complaint.

My findings

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

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Mr M’s complaint.

Having carefully considered everything, I’ve decided not to uphold Mr M’s complaint. I’ll explain why in a bit more detail.

Novuna needed to make sure that it didn’t lend irresponsibly. In practice, what this means is Novuna needed to carry out proportionate checks to be able to understand whether Mr M could afford to repay before providing this loan.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

Novuna provided Mr M with a loan for £5,000.00 in November 2022. This loan was due to be repaid in 48 instalments of 158.73. Novuna says it agreed to Mr M’s application after he provided details of his monthly income and it combined this with some statistical data on his expenditure.

It says it cross-checked this against information on a credit search it carried out and information on how much Mr M received into his bank account each month. And all of this information showed Mr M could comfortably make the repayments he was committing to. On the other hand, Mr M has said the loan was unaffordable.

I've carefully thought about what Mr M and Novuna have said.

The first thing for me to say is that the information provided does suggest Mr M was asked to provide some details regarding his income and Novuna didn't just rely on what it was told as it carried out a credit search too. And although Mr M did have some existing debts, I don't think that this was excessive in comparison to his declared income. Furthermore, the credit checks didn't show that Mr M had any significant adverse information such as defaulted accounts or county court judgments ("CCJ") recorded against him either.

I know that Mr M says that Novuna relied upon incorrect information about his income. However, the information from the time shows that Mr M declared that he was self-employed and earning £32,000.00 a year. I can see that Mr M's declaration was cross checked against information going into his main bank account each month. Mr M says that this cannot have been correct as he wasn't earning this.

However, Novuna simply checked whether the amount of funds Mr M was receiving into his bank account was consistent with his declaration. It did not check on the source of these funds. And having seen the bank statements Mr M has provided, it does appear to show credits which could have amounted to a salary that he declared. While Mr M has said that this type of check is inadequate, it is permitted under the regulations.

Furthermore, it wouldn't be fair and reasonable for me to simply ignore that fact that any discrepancies here result from Mr M making a declaration, which he now says was inaccurate, to start with. Bearing in mind everything and what Novuna's cross checking showed, I don't think that it was unreasonable for Novuna to rely on Mr M's declaration in these circumstances.

I accept that Mr M says the payments were unaffordable for him. And I'm sorry to hear that. However, having looked at Mr M's bank statements, it seems to me that he had sufficient funds in his account to be able to make the required monthly payments.

Furthermore, I don't think that Novuna doing more to find out about Mr M's expenditure at the time, rather than relying on statistical data like it did, would have made a difference here either. I say this because when Mr M's actual living costs (from his bank statements), rather than the expenditure information he's now provided in order to support his complaint, are added to what Novuna saw about the credit commitments in his name, he does appear to have had the funds required to make the monthly payments required.

In reaching my conclusions, I've also considered whether the lending relationship between Novuna and Mr M might have been unfair to Mr M under section 140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I don't think Novuna irresponsibly lent to Mr M or otherwise treated him unfairly in relation to this matter. And I haven't seen anything to suggest that section 140A CCA or anything else would, given the facts of this complaint, lead to a different outcome here.

Overall and having considered everything, I don't think that Novuna did anything wrong when deciding to lend to Mr M. So I'm not upholding the complaint. I appreciate this will be

very disappointing for Mr M. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mr M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 13 January 2025.

Jeshen Narayanan
Ombudsman