

Wedding woes

Background

Monica and her daughter Lisa shared a love of fashion and Lisa's upcoming wedding provided them with an opportunity to shop even more than usual. Monica told Lisa that she would purchase her wedding dress for her, although she did not have the funds to do so.

Monica's credit history was not good. In fact, she owed money to nine different lenders and was in default with five of them. She approached three existing lenders and two new lenders to fund the purchase of the dress, and they all declined her applications very promptly.

The bridal boutique introduced Monica to a different finance company who they had an excellent record of approvals with. Monica happily allowed the boutique to make the loan application for her and requested a loan of \$2,900.

To Monica's surprise the loan was approved almost immediately with a maximum limit of \$4,500. Monica was delighted that the loan was approved at all, and Lisa was overjoyed to learn of the higher limit. Lisa then showed Monica a \$4,499 dress she loved but had not thought would be within their budget. They quickly agreed that this was the right dress for Lisa and Monica made the purchase with the loan funds.

While the wedding was great, the loan was not as successful. Monica was able to make the first few payments by redirecting money from her other loan repayments, but she quickly fell into default.

Monica laid a complaint to FDRS alleging, among other things, that the finance company had led her into debt by making a higher debt limit available to her than she had requested.

Next steps

As FDRS investigated the matter further facts came to light. In particular, it was found that the finance company had consulted with Monica about the debt level and offered her two options, informing her of the terms and conditions of each. When speaking to them on the phone Monica originally opted for the lower option but, after speaking with Lisa about the dream dress, she had called them back and chosen the higher limit.

On this aspect of the complaint, FDRS found that Monica's decision to take up the offer of a higher debt level was made at 'arms-length' and not under pressure from the finance company who simply presented two options in an objective manner.

Outcome

The FDRS decision was that this aspect of the Customer's complaint was not upheld.

Lessons learned

Lenders owe very significant duties to borrowers, and it is right that they do so as there is an obvious imbalance of power in the relationship. However, borrowers also have responsibilities to make decisions which are in their own best interests. While unexpected events can affect all of us, the outcome of this borrowing decision was predictable, and it was for the borrower to make a sound decision which was in her own best interests.

** This was only one part of a larger decision and many other aspects of that decision were in favour of the borrower. Names and identifying details have been changed to protect our customers' identities.*