

The complaint

Mr R complains that Advantage Finance Ltd irresponsibly provided him with a hire purchase agreement for a car that he couldn't sustainably afford.

Mr R has been assisted by a third party in making his complaint however for ease of reference I will only refer to Mr R in my decision.

What happened

In August 2019 Mr R entered into a five-year hire purchase agreement with Advantage to purchase a car. The car cost £7,271 and together with the interest and other charges he borrowed a total credit amount of £12,522.20. The monthly payments were around £205.

Mr R made regular monthly payments until 2023 when the car was involved in an accident and was considered a write-off. The insurer settled the outstanding balance on Mr R's account.

In 2024 Mr R complained to Advantage that the hire purchase agreement had been unaffordable for him and that it had not carried out proportionate checks on his finances. He said if it had, then it would have seen the loan wasn't sustainably affordable for him.

Advantage didn't uphold Mr R's complaint. It said it disagreed it hadn't undertaken proportionate checks on Mr R's income and outgoings. Advantage said it had verified Mr R's income and carried out a credit check. It had also used the Office of National Statistics (ONS) data to estimate Mr R's non-discretionary expenditure and therefore his disposable income. Advantage said that after using these figures it had determined the hire purchase agreement was affordable for him.

Mr R was unhappy at Advantage's response and complained to this service. He said at the time he had applied for the hire purchase agreement he had defaulted on direct debits for essential utilities and was financially struggling. He said had Advantage done proportionate checks it would have seen he couldn't afford this credit.

Our investigator didn't recommend that Mr R's complaint should be upheld. She said that although Mr R had some adverse information on his credit file this was historical and Advantage, being a specialist lender, would be prepared to lend in those circumstances.

Our investigator also said that looking at Mr R's credit file she could see he had been paying off his debt and there was no recent adverse information which showed he was managing his finances well. She said she considered the expenditure checks had been proportionate.

In respect of using ONS data to calculate Mr R's non-discretionary expenditure, our investigator said this was in line with the Financial Conduct Authority's (FCA) handbook and appropriate estimations were reasonable to use to calculate an individual's income.

Our investigator said that she considered Mr R had sufficient disposable income to sustainably afford the hire purchase agreement.

Mr R disagreed with the view of our investigator and asked that his complaint be passed to me.

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.

The FCA sets out in part of its handbook known as CONC what lenders must do when deciding whether or not to lend to a consumer. It sets out that a lender must consider a customer's ability to make repayments under the agreement without having to borrow further to make repayments or default on other obligations, and without the repayments having a significant adverse impact on the customer's financial circumstances.

CONC says a lender must carry out checks which are proportionate to the individual circumstances of each case.

Did Advantage carry out proportionate checks?

Advantage said that it had verified Mr R's income using Current Account Turnover Data (CATO) and it had also assessed if his income matched with his occupation. It was satisfied that Mr R's monthly income was £1,500. Advantage also said that using this system meant it didn't need to ask Mr R to provide copies of his payslips or bank statements to verify his income. I accept that here the use of the CATO system was a reliable way of verifying Mr R's income as the figure is very close to that shown on his bank statements.

Advantage then undertook a credit check on Mr R. This showed that Mr R's borrowing levels were low and although he had three defaults on past accounts these were at least two years before he took out the hire purchase agreement. Mr R had also been making payments on the two live defaults and had been able to reduce the outstanding amounts. Advantage also used ONS data to calculate Mr R's non-discretionary expenses.

CONC doesn't set out exactly what checks would be proportionate, and it does state that businesses are entitled to rely on statistical data unless they have reason to believe the statistical data would be inappropriate in the circumstances. Here Mr R reported that he worked full-time, was married and living in rented accommodation. So, I think it was reasonable for Advantage to use the ONS data as part of its calculations as to Mr R's living expenses.

Advantage calculated that from an income of £1,500pm, after Mr R had paid his living expenses and met his credit commitments as shown by his credit file, he would have had a disposable income left of around £609pm. This amount was more than enough to meet the monthly payments on the hire purchase agreement.

While I accept the bank statements that have been provided by Mr R show that he had some unpaid direct debits there were no reports of any recent defaults in his credit file. And Advantage wasn't aware of these returned direct debits as it hadn't asked for bank statements from him. However, as set out above, Advantage needs to make proportionate checks, and such checks don't necessarily mean statements are required.

Looking at the checks that were undertaken by Advantage I think it is reasonable to consider that these were proportionate in the circumstances of this case and so Advantage wasn't acting unfairly by not having asked for bank statements or further details about his finances from Mr R. It had verified his income, checked his credit record and calculated his non-discretionary expenditure using an appropriate and reasonable method.

I don't think Mr R's credit file contained information that would have reasonably required Advantage to seek further information from him. The defaults were historic, the total amount owing was low, and he appeared to be managing his finances. I therefore think that with the disposable income shown he had sufficient to pay towards his defaulted accounts as he had been doing, as well as sustainably affording the hire purchase agreement's monthly payments.

Did Advantage make a fair lending decision?

Having concluded that Advantage carried out proportionate checks, I still need to decide if it made a fair lending decision.

As set out above, Advantage calculated Mr R had a disposable monthly income of £609 from which he would be able to meet the £205pm payments for the hire purchase sustainably. Mr R says that his finances were stretched but I think Advantage decision to lend was fair based on the results of its checks which as set out above I think were proportionate.

I'm also satisfied that the costs of the hire purchase agreement were clearly set on the documentation which was provided to Mr R. I haven't seen any evidence that Advantage acted unfairly in providing Mr R with the hire purchase agreement.

For the reasons set out above I'm not upholding Mr R's complaint.

My final decision

For the reasons set out above I'm not upholding Mr R's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 20 December 2024.

Jocelyn Griffith
Ombudsman