

## The complaint

Miss J complains through a representative that Advantage Finance Ltd (“Advantage”) gave her a hire purchase agreement without carrying out a sufficient affordability assessment.

## What happened

In September 2019, Advantage provided Miss J with a hire purchase agreement for a used car. The cash price for the vehicle was £3,995 and Miss J paid a £100 deposit. £3,895 was financed with a total of £3,417.34 in interest, fees and charges. If Miss J paid the hire purchase agreement in line with the agreement, then she would’ve repaid a total of £7,412.34. This was through 53 monthly repayments of £131.71 with a final payment due of £331.71.

Advantage has said that the hire purchase agreement is settled with all payments made as expected.

Miss J then complained to Advantage in March 2024. Advantage issued a final response letter, and it didn’t uphold it because it considered that it fairly assessed the agreement as being affordable. Miss J’s representative then referred the complaint to the Financial Ombudsman.

Miss J’s complaint was considered by an investigator. The investigator said the credit check results Advantage received ought to have prompted further checks into Miss J’s everyday living costs. This was because Miss J was in arrears with her mortgage. Having carried out further checks, she was satisfied that had Advantage carried out more detailed checks it still would’ve reached the same decision – that the agreement was affordable.

Miss J disagreed across a number of emails gave reasons why. These comments didn’t change the investigator’s assessment and so the complaint was passed to me. I issued a provisional decision asking both parties to provide any further submissions as soon as possible.

Advantage responded and said it didn’t have anything further to add.

Miss J’s representative didn’t agree with the provisional decision saying we need to refer back to the income and expenditure assessment it had prepared for Miss J – which was based on the consumer’s actual bank statements – which showed the finance to be unaffordable.

The representation explained that some of the credit commitments had been overlooked such as a catalogue shopping account. And including those and the food shop, then that would leave only £83 per month in disposable income which isn’t enough to maintain a car – such as petrol.

Miss J was also significantly overdrawn and accounting for a 5% repayment each month leads to another £70 per month. Overall, the information suggests that the loan was unaffordable.

Further information was then sought from the representative to see whether Miss J could provide some further context and information around what was going on with her mortgage at the time. The representative, then explained that Miss J wasn't making payments to the mortgage and as such shouldn't have been given the agreement. But no further detail was provided.

A copy of the provisional findings follows in smaller font this and form part of this final decision.

### **What I said in the provisional decision**

*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 irresponsible and unaffordable lending on our website. And I've used this approach to help me decide Miss J's complaint. Having carefully thought about everything I've been provided with and I'm intending to not upholding Miss J's complaint. I'd like to explain why in a little more detail.*

*Advantage needed to make sure that it didn't lend irresponsibly. In practice, what this means is that Advantage needed to carry out proportionate checks to be able to understand whether any lending was sustainable for Miss J before providing it.*

*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 that information – 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, the amount lent was high, or the information the lender had – such as a significantly impaired credit history – suggested the lender needed to know more about a prospective borrower's ability to repay.*

*Advantage as part of the application process took details of Miss J's monthly income which she declared was £1,550 per month. Advantage also says this income amount was cross referenced using a tool provided by a credit reference agency and Advantage's notes show that Miss J income was verified using this method. For the first hire purchase agreement given this check was proportionate and reasonable to verify Ms J's income.*

*In addition, Advantage went about working out Miss J's current monthly outgoings. In order to do this, it conducted a credit search and discovered she had a mortgage and it also used the credit file to work out Miss J's other credit commitment costs. It used government data to work out council tax payments and then used Office of National Statistics data to work out Miss J's likely utilities costs. Overall, Advantage calculated Miss J's monthly outgoings came to £965.40.*

*This then left around £584 per month to cover the payment Miss J was due to make to Advantage and any other living costs that she had. Advantage, therefore concluded Miss J was able to make her loan repayments.*

*As I said above, Advantage conducted a credit search before granting the agreement and it has provided a copy of the results that it received. I've considered these results to in order to see whether Advantage was given any indication that Miss J was or was likely having financial difficulties at the time the agreement was granted.*

*Advantage knew that Miss J had a balance on a store card of £337 and then was paying £70 per month towards a home credit loan. Other than that, she had two other credit cards that had a zero balance and all of these accounts were up to date with no missed payments.*

However, Advantage was told that Miss J had a mortgage which had a cost of £953 per month, and she'd had problems making her repayments for most of the last eight months. By the time the loan was approved the account was showing as being 6 months in arrears.

Firstly, the amount calculated in Advantage's outgoings for Miss J for her mortgage wasn't correct based on the information contained within the credit report. It has only attributed £628.28 towards this cost – despite the credit file showing the monthly cost to the mortgage was £953. No explanation has been provided as to why Advantage used a lower cost than what the credit file showed. Advantage may want to provide some further information in response to the provisional decision.

Indeed, this cost would be even greater as the account was now in arrears – assuming six months then that would equate to over £5,700 of arrears. And all of these areas had built up in the months leading to the loan being approved.

What I also can't explain is that this was the only active account with any repayment problems on, her credit cards / store card and home credit loan didn't have any adverse payment information recorded against it. But what Advantage did know is that Miss J may well have been having financial difficulties.

I appreciate Advantage says that Miss J had settled hire purchase agreements that had cost her more per month and so it may not have been overly concerned about her ability to repay this agreement. But both of these agreements had been settled for some years – so they were not an indication Miss J could afford this agreement at the time it was approved. As such, while the payment of previous agreement could've been considered by Advantage the overriding consideration needed to have been that the credit file showed she wasn't able to meet her mortgage payments.

The starting position is that Advantage needed to, at the minimum, make further enquiries with Miss J to establish what was going on that had led to the mortgage arrears. I don't think Advantage did this and so I don't consider its checks went far enough before the loan was approved.

The credit report provided by Advantage doesn't stipulate whether the mortgage was joint or not. But the agreement does show an association with another person at her address. I've reviewed the credit report provided by Miss J's representative and this doesn't show whether this was a joint mortgage, but it does show the mortgage was in arrears until February 2022.

I appreciate, the loan may have appeared affordable to Advantage but I don't think that conclusion could be fairly reached when there was indications of financial difficulties in the credit search results and so Advantage needed to take a closer look at Miss J's finances. Like the investigator, I do think that before the loan was approved, Advantage needed to at the very least understand what Miss J's actual monthly outgoings were as well as trying to understand what was happening with her mortgage payments.

It could've gone about doing this a number of ways, it could've simply asked Miss J what had led to the mortgage account entering arrears and it also could've asked her what her living costs were, asked for evidence from Miss J about her bills or as I've done, it could've asked for copy bank statements. To be clear, Advantage didn't need to obtain bank statements in order to conduct a proportionate check nor was Advantage required to conduct a forensic review of these statements.

It also worth saying here that had bank statements been collected, with Miss J's salary as well as benefits here income was greater than what Advantage believed – it was actually round £1,800 per month.

Had Advantage reviewed Miss J's bank statements – or gathered other information about her living costs, it would've likely discovered her direct debits were costing her around £670 per month. Of course, there would've been other costs such as food and petrol but given her actual income, on balance I think Advantage would've likely concluded the loan was

*affordable for her.*

*The investigator, on my behalf made further enquiries with Miss J's representative to better understand the situation with the mortgage. I also can't see any payments at all nor can I see any other payments being made to a different provider for say rent.*

*This was needed because Advantage was already on notice that there was an issue with the repayments towards it and this would've helped me get a better understanding of Miss J's situation at the time. These further enquires were also made because there seems to be no payments from the account that she has provided or any other details of any other housing costs.*

*There is also a further payment that is regularly received in the months leading up to the agreement called "rent" and so further information was sought from Miss J about this because this may have had the impact of further increasing Miss A's monthly income – taking it to around £2,100 per month.*

*Based on what I have, I don't think it would've been unreasonable for this figure to have been used, so the agreement would've looked affordable regardless of what mortgage figure was used by Advantage.*

*However, a response hasn't been received from Miss J's representative, and for the reasons I've outlined above, I'm currently hand minded to conclude that had Advantage carried out further checks it would've likely concluded that the agreement was just about affordable for Miss J.*

### **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 considered the response received from Miss J's representative and as well as what I said in the provisional decision and I'm still intending to not uphold the complaint.

Firstly, Advantage carried out a credit search and it knew that Miss J had a loan costing £70 per month as well as a store card balance of £330. Assuming a payment amount of around 5% that his would equate to a payment of around £17 per month.

Given it carried out a credit search, I do think it's reasonable that Advantage could rely on the results as an indication of Miss J's current monthly commitments to other creditors and this was known to be around £90 per month. In my view, it would be entirely fair and reasonable for Advantage to have relied on the information it received about what Miss J's other credit commitments were from its credit check results.

Advantage did know, from the credit check results that Miss J's current account was overdrawn and close to the overdraft limit at that time. But, that isn't a reason on its own to have upheld the complaint especially when the credit file showed the current account had been well maintained with no adverse markers.

So, in my view Advantage could have relied on this to work out the monthly credit commitments. However, as I laid out in the provisional decision, I did have concerns about the checks and so Advantage needed to do more to work out Miss J's living costs – and to be clear this would things such as utilities and other payments. But not the credit commitments because Advantage would be entitled to rely on the results that it received.

And as I said in the provisional decision, this wasn't intended to be a full verification of Miss J's total outgoings. But a review of her actual living costs, rather than relying on statistical data.

And as I said in the provisional decision, Advantage could've gone about checking Miss J's outgoings a number of ways. It could've simply asked for copy of her bill statements or any other documentation it felt was necessary. It also, could've reviewed her bank statements.

Taking account of all the Miss J's commitments including the intended mortgage repayment – which Advantage was aware of that the agreement was just about affordable for her given the other commitments such as council tax, utilities and tv subscriptions that she had and thinking about the loan repayments. I think it was, albeit marginal - taking account of the marketplace Advantage operates in as well as the rest of Miss J's credit file indicating a good repayment history means it was just about reasonable for Advantage to have approved this agreement for Miss J.

I am therefore not upholding Miss J's complaint.

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Advantage lent irresponsibly to Miss J or otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

### **My final decision**

For the reasons given above and in the provisional decision I am not upholding Miss J's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss J to accept or reject my decision before 7 March 2025.

Robert Walker  
**Ombudsman**