

The complaint

Mrs G complains through a representative that Advantage Finance Ltd (“Advantage”) gave her a hire purchase agreement without carrying out adequate affordability checks.

What happened

In July 2019, Advantage provided Mrs G with a hire purchase agreement for a used car through two credit intermediaries. The cash price for the vehicle was £6,645 and no deposit was paid for the full asking price was financed. There was also interest, fees and charges totalling £5,508.80 with Mrs G having to repay a total of £12,153.80. Mrs G was due to repay the loan through 59 monthly repayments of £199.23 followed by a final payment of £399.23. The agreement was repaid in June 2024.

Mrs G, through her representative complained to Advantage in June 2024 about the insufficient checks that were carried out before the agreement was entered into. Advantage issued a final response in July 2024, and it didn’t uphold the complaint. Mrs G’s representative then referred the complaint to the Financial Ombudsman.

Mrs G’s complaint was considered by an investigator. He said the credit check results contained some missing information about monthly commitments as well as some adverse credit file data and so this ought to have prompted Advantage to have taken a closer look at Mrs G’s finances. The investigator reviewed Mrs G’s bank statements but concluded that further checks would’ve shown the loan to be affordable.

Mrs G’s representatives disagreed with the outcome and so the complaint has been passed to me, for a decision.

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.

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 Mrs G’s complaint. Having carefully thought about everything I’ve been provided with, I’m not upholding Mrs G’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 Mrs G 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 asked Mrs G details of her income, marital status as well as the type of accommodation she had. Based on what Advantage collected it knew she was married, lived in rented accommodation and earned £1,404 per month.

Advantage used a well-established process for cross referencing Mrs G's declared income with a tool provided by a credit reference agency. As a result of this check, it was satisfied that Mrs G had provided an accurate picture of her monthly income. It therefore follows it was reasonable of Advantage to have used a monthly income amount of £1,404.

In addition to checking Mrs G's income Advantage went about using statistical data derived from several sources to establish Mrs G's monthly living costs. Taking account of where Mrs G lived, it estimated monthly rent payments of £464.46 and government data suggested council tax payments of £77.22. It then used the information from Mrs G's credit file (which I'll come onto below) and it worked out her monthly credit costs came to £132.39. Finally, it used Office of National Statistics data for her utilities and these costs came to £123.22. Overall, Advantage worked out Mrs G's living costs came to £800.47. This left just over £603 per month to cover the loan repayment and any other living costs.

Advantage also 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 see whether Advantage was given any indication that Mrs G was, or was likely having, financial difficulties at the time the agreement was granted.

Having looked at the results, I do have some concerns with the information Advantage gathered because it suggested that Mrs G may have been experiencing some financial difficulties.

Mrs G had two County Court Judgements – with the most recent one being recorded around 7 months before this loan was approved. She also had a communication account and a credit card account that had recently been in arrears – although these accounts were now up to date. And at the time the finance was agreed Mrs G was one month in arrears with another credit card account. There was also a default recorded against her 10 months before the finance start date.

So, I do think it's fair to say that within the last year Mrs G had experienced problems making repayments to a number of different accounts – and those problems had extended up to around the time the loan was granted.

Like the investigator I don't think Advantage's checks went far enough. I say this mainly because I have concerns about Advantage's use of statistical data in the circumstances of this complaint. Mrs G had arrears on a credit card account and had repayment problems within the previous seven months as well as having a CCJ recorded against her. As such I don't think it was fair or reasonable for it to have relied on the statistical data about her living costs when there was cause to question Mrs G's overall financial situation.

Advantage's checks could've gone further simply by asking Mrs G what her actual living costs were. Or it could've gathered evidence from Mrs G about her bills or as I've done, it could've asked for copy bank statements.

But to be clear, I've only used the bank statements to get an idea of what Mrs G's regular living costs are likely to have been at the time. – I've not done this because I think

Advantage ought to have requested this information as part of underwriting this loan. After all Advantage already had a reasonable idea of Mrs G's credit commitments and her income.

I accept had Advantage conducted proportionate checks it may not have seen all the information that I have seen. But, in the absence of Advantage conducting a proportionate check I do think it's fair and reasonable to consider statements that I now have access to. And having looked at the statements I've come to the same conclusions as the investigator for broadly the same reasons.

Mrs G had told us that she didn't pay the council tax or the rent – and this is confirmed by her bank statements. Having looked at the regular payments Mrs G had including for utilities, water bill, mobile phone and other communication bills, her debt repayments, account fees, her direct debits as well as food and petrol come to around £1,000 per month. So broadly in line with the figures that were calculated by the investigator.

So had Advantage conducted better checks, I think it would've seen that Mrs G didn't have as much disposable income as it initially calculated. But even taking account of the increased costs that Mrs G had, I'm not persuaded that even if Advantage was aware of these it would've concluded the finance agreement was unaffordable for her.

So, I don't see a reason why Advantage would've thought, given everything it ought to have gathered and what it saw in the credit file, that Mrs G wouldn't be able to sustainably make her repayments towards this agreement.

I am therefore not upholding Mrs G's complaint because had Advantage carried out proportionate checks that showed the loan to be affordable and sustainable for her.

Finally, 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 Mrs G 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 I've outlined above, I am not upholding Mrs G's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs G to accept or reject my decision before 21 February 2025.

Robert Walker
Ombudsman