

Complaint

Mrs J complains that Advantage Finance Ltd (“Advantage Finance”) unfairly entered into a hire-purchase agreement with her. She’s said she was in financial difficulty when she applied for the credit and so shouldn’t have been accepted for it.

Background

In November 2017, Advantage Finance provided Mrs J with finance for a used car. The cash price of the vehicle was £4,895.00 and Mrs J applied for a loan to cover the entire amount. The loan had interest, fees and total charges of £4,575.56 (comprising of interest of £4,075.56, an acceptance fee of £325 and an option to purchase fee of £175), and the total amount to be repaid of £9,470.56 was due to be repaid in 53 monthly instalments of £172.14 and one final payment of £347.14.

In January 2023, Mrs J complained that the payments to this hire purchase agreement were unaffordable and so the finance should never have been provided to her. Advantage Finance looked at the complaint and didn’t uphold the complaint. It said that the checks completed before the agreement was entered into confirmed that the finance was affordable and so it was reasonable to lend.

Mrs J’s complaint was considered by one of our investigators. He didn’t think that Advantage Finance had done anything wrong or treated Mrs J unfairly. So he didn’t recommend that Mrs J’s complaint should be upheld. Mrs J disagreed with our investigator and the complaint was passed to an ombudsman for a final decision.

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 irresponsible and unaffordable lending on our website. And I’ve used this approach to help me decide Mrs J’s complaint.

Advantage Finance needed to make sure that it didn’t lend irresponsibly. In practice, what this means is that Advantage Finance needed to carry out proportionate checks to be able to understand whether Mrs J could make her payments in a sustainable manner before agreeing to lend to her. And if the checks Advantage Finance carried out weren’t sufficient, I then need to consider what reasonable and proportionate checks are likely to have shown.

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.

Having carefully thought about everything I've been provided with, I'm not upholding Mrs J's complaint. I'd like to explain why in a little more detail.

Advantage Finance says it agreed to this application after it completed an income and expenditure assessment on Mrs J. During this assessment, Mrs J provided details of her monthly income and payslips to verify what she'd declared.

Advantage Finance says it also carried out credit searches on Mrs J which showed some previous adverse credit information and outstanding balances. But when the amount Mrs J already owed plus a reasonable amount for Mrs J's living expenses, based on statistical data from the Office of National Statistics, were deducted from her monthly income the monthly payments were still affordable. On the other hand, Mrs J says she was already struggling at the time and that these payments were unaffordable.

I've thought about what Mrs J and Advantage Finance have said.

The first thing for me to say is that much like our investigator, I don't think that the checks Advantage Finance carried out did go far enough. Advantage Finance's searches showed that Mrs J had had previous difficulties with credit. In my view, Advantage Finance needed to take further steps to verify Mrs J's actual living costs, given what the credit search showed in order for its checks to have been proportionate.

As Advantage Finance didn't carry out sufficient checks, I've gone on to decide what I think Advantage Finance is more likely than not to have seen had it obtained further information from Mrs J. Bearing in mind, the length of time of the agreement and the amount of the monthly payment, I would have expected Advantage Finance to have had a reasonable understanding about Mrs J's regular living expenses as well as her income and existing credit commitments.

I've considered the information Mrs J has provided us with. And having done so, this information does appear to show that when Mrs J's committed regular living expenses and existing credit commitments are deducted from her monthly income at the time, she did have the funds, at the time at least, to sustainably make the repayments due under this agreement.

I appreciate that Mrs J has said that she was repaying a loan to a family member. This may well be the case, but as this won't have shown up on the credit search, I don't think it's reasonable to include this as an expense for her. Furthermore, I don't think that Mrs J's overdraft usage was at a level where it could be reasonably concluded that she was trapped in that type of borrowing.

What I'm required to think about here in order to determine whether Advantage Finance acted fairly and reasonably towards Mrs J, is whether Mrs J had sufficient disposable income to enable her to make the monthly payments to this agreement. And having considered everything, I'm satisfied that the available information indicates that Mrs J did have sufficient funds left over, once her regular living expenses and discernible committed expenditure was deducted from her monthly income, to make her monthly payments in a sustainable manner.

So overall and having carefully considered everything, while I don't think that Advantage Finance's checks before entering into this hire purchase agreement with Mrs J did go far enough, I'm satisfied that carrying out reasonable and proportionate checks won't have prevented Advantage Finance from providing these funds, or entering into this agreement

with her. I'm therefore satisfied that Advantage Finance didn't act unfairly towards Mrs J when it agreed to provide the funds and I'm not upholding Mrs J's complaint.

I appreciate that this will be very disappointing for Mrs J. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

My final decision

My final decision is that I'm not upholding Mrs J's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs J to accept or reject my decision before 28 August 2023.

Jeshen Narayanan
Ombudsman