

Complaint

Mr M complains that Advantage Finance Ltd (“Advantage Finance”) unfairly entered into a hire-purchase agreement with him. He’s said he was the monthly payments for the agreement weren’t affordable and so he shouldn’t have been accepted for it.

Background

In March 2020, Advantage Finance provided Mr M with finance for a used car. The cash price of the vehicle was £12,495.00. Mr M didn’t pay a deposit and entered into a 60-month hire-purchase agreement with Advantage Finance to cover the entire £12,495.00.

The loan had interest, fees and total charges of £9,896.60 (comprising of interest of £9,371.60, an acceptance fee of £325 and an option to purchase fee of £200), and the total amount to be repaid of £22,391.60 was due to be repaid in 59 monthly instalments of £369.86 followed by 1 final payment of £569.86.

Mr M’s complaint was considered by one of our investigators. He didn’t think that Advantage Finance had done anything wrong or treated Mr M unfairly. So he didn’t recommend that Mr M’s complaint should be upheld. Mr M 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 Mr M’s complaint.

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

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 Mr M could make him payments in a sustainable manner before agreeing to lend to him. 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.

Advantage Finance says it agreed to this application after it completed an income and expenditure assessment on Mr M. During this assessment, Mr M provided details of his monthly income and this was cross-checked against information on a bank statement.

Advantage Finance says it also carried out credit searches on Mr M which showed some previous adverse credit information in the form of some defaulted accounts. But these were for the most part historic and they had been settled.

In any event, in Advantage Finance's view, when the amount Mr M already owed plus a reasonable amount for his living expenses, based on statistical data, were deducted from his monthly income the monthly payments were still affordable. On the other hand, Mr M says he was already struggling at the time and that these payments were unaffordable.

I've thought about what Mr M and Advantage Finance have said.

The first thing for me to say is that unlike our investigator, I don't think that Advantage Finance did do enough here. Advantage Finance's searches showed that Mr M had had previous difficulties with credit. In my view, Advantage Finance needed to consider the bank statements it had to determine Mr M's actual living costs, given what the credit search showed in order for its checks to have been proportionate.

As Advantage Finance didn't do enough to assess what it had, I've gone on to decide what I think Advantage Finance is more likely than not to have done had it obtained applied better scrutiny to the information it obtained. 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 Mr M's regular living expenses, rather than rely on estimates, as well as his income and existing credit commitments.

I've considered the bank statements in the information Advantage Finance had. To be clear, I'm not going to carry out a forensic analysis of these bank statements in order to 're-underwrite' this loan sometime after the event. I'm simply going to consider whether it is more likely than not Advantage Finance will have made a different decision (on whether to lend to Mr M) if it had reviewed the bank statements provided.

Having considered the information provided, I'm satisfied that there isn't anything to show that when Mr M's committed regular living expenses and existing credit commitments are deducted from his monthly income at the time, he did have the funds, at the time at least, to sustainably make the repayments due under this agreement. In my view, the information in the bank statements didn't contradict or call not question the estimated expenditure information arrived at.

So overall and having carefully considered everything, while I don't think that it was reasonable for Advantage Finance to rely on average data when it had actual data on Mr M's regular living expenses, I'm satisfied that further consideration of Mr M's bank statements won't have prevented Advantage Finance from providing these funds, or entering into this agreement with him.

I'm therefore satisfied that Advantage Finance didn't act unfairly towards Mr M when it agreed to provide the funds and I'm not upholding Mr M's complaint. I appreciate that this will be very disappointing for Mr M. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

My final decision is that I'm not upholding Mr M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 6 May 2024.

Jeshen Narayanan
Ombudsman