

## **The complaint**

Ms T complains that Advantage Finance Ltd (“Advantage”) irresponsibly granted her a loan she couldn’t afford to repay.

## **What happened**

In January 2018, Ms T acquired a car and financed the deal through a hire purchase agreement with Advantage. Ms T was required to make 47 monthly repayments of £155.07, with a final payment of £330.07 which included an option to purchase fee after which Ms T would become the owner of the car. The total repayable under the agreement was £7,618.36. The car was voluntarily surrendered in May 2020 and after sale of the car a balance remains outstanding.

Ms T says that Advantage didn’t complete adequate affordability checks. She says if it had, it would have seen the agreement wasn’t affordable. Advantage didn’t agree. It said that it carried out a thorough assessment. It reviewed Ms T’s credit file and took information from her about her personal circumstances and income and it also explained it verified this income prior to making a lending decision.

Our adjudicator recommended the complaint be upheld. She thought Advantage ought to have realised the agreement wasn’t affordable for Ms T.

Advantage didn’t agree and said Ms T’s credit file showed her credit situation was improving. There was only £1,336 of credit over her active accounts and whilst there were three recently defaulted accounts they had zero balances. They said their approach was proportionate in the circumstances.

The case has been passed to me for a final 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.

Advantage will be familiar with all the rules, regulations, and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don’t consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

The credit check Advantage completed showed three accounts had been defaulted within the last seven months. It showed payments of £77 per month were being paid towards a home credit agreement and also identified a small balance on a utility account. The credit balances weren’t high, but I think the presence of recent defaults, even ones that had subsequently been settled, should have alerted Advantage to the potential that Ms T had been, and may still be, struggling financially. The credit broker had provided them with information to suggest Ms T was living in rented accommodation and they knew that Ms T

was earning about £1,300 per month. It was clear that she would need to be able to afford food, energy, insurance, rent, council tax and some loan cost from that £1,300 as well as the £155.07 per month that was due on this agreement. I think that in tandem with the recent defaults, this ought to have prompted Advantage to have dug deeper to gain a more thorough understanding of Ms T's expenditure before lending.

I can't be sure exactly what Advantage would have found out if it had asked about expenditure. In the absence of anything else, I think it would be reasonable to place significant weight on the information contained in Ms T's bank statements as to what would most likely have been disclosed.

I've reviewed three months of bank statements leading up to the lending decision. These show that Ms T was paying about £2,350 towards her committed living expenditure including rent, council tax, food, and utility costs. Her income was higher than Advantage had recorded as she was in receipt of child tax credit and child benefits. In total I think Ms T's income was about £2,550 and that left her with disposable income of £200 before this loan of £155.07 per month and any fuel and motoring expenses were taken into account. That demonstrates that Ms T didn't have enough disposable income to afford the additional borrowing. Advantage therefore didn't act fairly by approving the finance.

### **Putting things right**

As I don't think Advantage ought to have approved the lending, it should therefore refund all the payments Ms T has made, including any deposit. However, Ms T did have use of the car for about 27 months, so I think it's fair she pays for that use. But I'm not persuaded that monthly repayments of over £155 a month are a fair reflection of what fair usage would be. This is because a proportion of those repayments went towards repaying interest.

There isn't an exact formula for working out what a fair usage should be. In deciding what's fair and reasonable I've thought about the amount of interest charged on the agreement, Ms T's likely overall usage of the car and what her costs to stay mobile would likely have been if she didn't have the car. In doing so, I think a fair amount Ms T should pay is £90 for each month she had use of the car. This means Advantage can only ask her to repay a total of £2,430. Anything Ms T has paid in excess of this amount should be treated as an overpayment.

To settle Ms T's complaint Advantage should do the following:

- Consider any payments Ms T has made as going towards the £2,430 fair usage figure.
- Remove any adverse reports they may have made to Ms T's credit file in relation to this agreement.
- If there is an outstanding figure for fair usage, Advantage should arrange an affordable repayment plan with Ms T.

### **My final decision**

I uphold this complaint and direct Advantage Finance Ltd to put things right in the manner set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms T to accept or reject my decision before 18 January 2022.

Phillip McMahon  
**Ombudsman**

