

The complaint

Mr B complains that AvantCredit of UK, LLC provided him with loans that he was unable to afford to repay

What happened

AvantCredit provided Mr B with the following loans (rounded figures):

	Date taken out	Amount £	Term	Monthly repayment	Amount repayable	Date repaid
Loan 1	23/6/14	£2,500	18 months	£229	£4,130	4/12/14
Loan 2	20/1/15	£3,400	30 months	£222	£6,673	20/5/15
Loan 3	26/5/15	£4,900	36 months	£213	£7,676	19/8/15
Loan 4	4/5/16	£2,800	24 months	£155	£3,718	28/7/17

Mr B says the loans were unaffordable to him, but very easy to obtain. He found it a struggle to repay the loans and he fell behind with his other bills. He felt he was locked in a cycle of obtaining further loans and relying on short term loans to try and maintain his commitments. He believes that his credit record at the time of each loan being granted should have led to AvantCredit not providing the loans.

On referral to the Financial Ombudsman our adjudicator thought that in light of his circumstances at the time of taking each loan, there was a significant risk he would've been unable to sustainably meet his repayments for these loans.

AvantCredit disagreed, pointing out that for each loan, it had assessed its affordability and that Mr B had the disposable income to afford the repayments.

The matter has been passed to me for further consideration.

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 have to consider whether AvantCredit completed reasonable and proportionate checks to satisfy itself that Mr B would be able to repay the loan in a sustainable way and/or without experiencing significant adverse consequences. Then taking that into account I have to consider whether in the circumstances AvantCredit made a fair lending decision.

For each loan, AvantCredit carried out a credit summary check, assessed the information provided on its application form and carried out an independent verification of Mr B's income.

loan 1

AvantCredit says it assessed that this loan was affordable. Mr B had a high income, and after taking into account his credit commitments and his mortgage, this left approximately £1,878 for general living expenses. After taking account of the loan repayments, it calculated that his credit commitments (excluding the mortgage) amounted to around 33% of his income.

On paper it may have looked like Mr B could afford the loan from his disposable income. However the credit summary check showed that, in the six months prior to taking out the loan, Mr B had opened sixteen short term lending accounts. I think Mr B had a high income to credit commitments ratio (33% taking into account this loan). Bearing in mind the amount of the loan, I think that the checks showed someone who was struggling to meet his commitments and over reliant on short term credit. On the face of it those checks didn't in my view show somebody who would have been able to sustain the loan without further borrowing. I don't think AvantCredit made a fair lending decision here.

loan 2

AvantCredit assessed that Mr B's credit to income ratio had gone down, to 17%, including the new loan. However, this loan was taken out just a month after loan 1 was paid off. Bearing in mind the information AvantCredit had obtained from loan 1's checks, I think it should have been concerned that Mr B was still using short term loan accounts – he'd opened eight in the six months between loans 1 and 2 and was clearly using them to pay off other loans. So again although a pounds and pence calculation seemed to show an income that was able to afford the payments, the credit check in my view showed differently. I don't think AvantCredit made a fair lending decision here.

loan 3

Again, AvantCredit assessed this loan as affordable, calculating that Mr B had around £1,795 for living expenses once his housing and credit commitments were taken into account. It assessed his credit commitments to income ratio as 28%, including this loan. It carried out the same checks as before, but didn't appear to query why Mr B had paid off loan 2 within four months but was taking out a new loan almost immediately.

The checks revealed that Mr B had taken out ten short term loans, in the previous six months, although there would have been some overlap with the check for loan 2. But the total balances on his active accounts had more than doubled since loan 2. I've seen Mr B's bank statements from February 2015. These showed in particular that Mr B had taken out a loan for £5,000 in March 2015, i.e. two months before this loan. He had a number of payments to short term loan companies, and it appears that he was essentially using the loans for day to day living and his credit commitments.

I think that AvantCredit should have been alerted to the increasing use of short term loans, and the fact that Mr B's credit to income ratio had increased from the previous loan. I think bearing in mind this and the previous loans that AvantCredit had enough information to decide that the loan repayments were likely to be unsustainable. So I don't think it made a fair lending decision.

loan 4

Again AvantCredit said this was affordable, assessing that Mr B's credit to income ratio was 21%. It pointed out that Mr B said his monthly expenses were £2,212, but didn't provide a breakdown between credit, housing, and other expenses. But it thought it reasonable to assess that he had at least £1,361 of income post taking out this loan.

However again Mr B was reliant on borrowing and short term lending. He had taken out a loan for £17,650 in August 2015 with which he had paid off loan 3. He had used the rest to pay off a credit card debt (of £2,000), a private debt of £3,200 and on paying off short term credit or day to day living expenses. Since loan 3 he had taken out a further eight short term loans, and his total balances had again doubled.

So whilst on the face of it the loan appeared to be affordable, I think that the checks AvantCredit carried out, along with the information it would have had from previous loans, showed that Mr B was clearly in a cycle of borrowing and repaying loans which he took out frequently to fund not just this but also his living expenses. So I think that the checks AvantCredit carried out did show that Mr B was unlikely to be able to repay the loan in a sustainable way. Again I don't think AvantCredit made a fair lending decision.

Putting things right

The appropriate remedy is for AvantCredit to remit all charges and interest on the four loan accounts. It should:

- refund all interest and charges Mr B paid on loan 1, loan 2, loan 3 and loan 4.
- pay interest of 8% simple a year on any refunded interest and charges from the date(s) they were paid (if they were) to the date of settlement.*
- remove any negative information if appropriate about loans 1,2,3 and 4 from Mr B's credit file.

*HM Revenue & Customs requires AvantCredit to take off tax from this interest. It must give Mr B a certificate showing how much tax it's taken off if he asks for one.

My final decision

I uphold the complaint and require AvantCredit of UK, LLC to provide the remedy set out under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 4 April 2022.

Ray Lawley
Ombudsman