

The complaint

Mr A says AvantCredit of UK, LLC irresponsibly lent to him.

What happened

Mr A took out two instalment loans from AvantCredit. Loan 1 was for £3,100 over 24 months. It was taken out on 11 April 2016 and repaid on 26 April 2018. The monthly repayment was £190.40. Loan 2 was for £3,900 over 36 months. It was taken out on 1 June 2018 and repaid on 21 May 2021. The monthly repayment was £191.85.

Mr A says he was in a cycle of payday loans and it was hard for him to keep up with payments without borrowing. He wants all charges he paid refunding with 8% interest.

Our adjudicator did not uphold Mr A's complaint. He said AvantCredit's checks were proportionate and it made fair lending decisions. Mr A was taking out both loans for debt consolidation and so they would reduce the amount of his monthly income he needed to spend on credit repayments.

Mr A disagreed with this assessment and asked for an ombudsman's review. He said as we have acknowledged he already had multiple loans when he applied, surely that was a reason not to lend to him. And loan 2 was given only two months after he'd settled loan 1, but again for debt consolidation.

I reached the same conclusion as the adjudicator but I made different findings in places. So I issued a provisional decision to give both parties a chance to comment. An extract follows and forms part of my final decision. I asked for any comments or new information by 10 January 2023.

Extract from my provisional decision

AvantCredit asked for some information from Mr A before it approved the loans. It asked for details of his income and his residential status. It asked about his living costs and it checked his credit file to understand his existing credit commitments. It also asked about the purpose of the loans which was debt consolidation both times. From these checks combined AvantCredit concluded Mr A would be able to sustainably repay the loans.

Loan 1

I agree that these checks were proportionate for loan 1. I have thought about the term of the loan (24 months), the stage in the lending relationship and the monthly repayment (£190.40) relative to Mr A's declared income (£2,020). He told AvantCredit his living costs were £500. AvantCredit was aware from its credit check that Mr A had just under £5,000 of other debt made up of an overdraft, high-cost short-term loans and a credit card. But as Mr A had declared that the loan was to settle some of his debt – and I think it was fair for AvantCredit to assume this would be the higher cost short-term loans. So it seems reasonable to conclude loan 1 would help Mr A break his cycle of reliance on pay day lending, and reduce his credit card balance in part. And so it would not be financially harmful for Mr A. After repaying

the more expensive loans he would need to spend around 14% of his monthly income to reduce his overdraft, make his credit card repayments, and cover this loan repayment. I don't think this ought to have led AvantCredit to think there was a risk Mr A could not sustainably afford the loan.

It follows I don't think AvantCredit was wrong to give loan 1 to Mr A.

Loan 2

I think when Mr A returned to borrow again for debt consolidation Avant Credit ought to have carried out a fuller financial review to check Mr A could sustainably afford the loan. AvantCredit knew from its credit check that he had £4,358 of debt across an overdraft, credit card and multiple high-cost short-term loans.

I don't think it would be fair to decline his application for the sole reason that it was to settle other debts again, as Mr A suggests, but I do think it meant AvantCredit needed to verify his actual outgoings and incomings to make sure it fully understood his financial circumstances. So I have looked at Mr A's bank statements from the three months prior to his application. I am not saying AvantCredit had to do exactly this but it's a way for me to recreate what better checks might have shown. However, had it done this I don't think AvantCredit ought to have made a different decision. The statements show that Mr A's declarations for expenses was accurate and understated for income. His actual average monthly net salary was £2,801 prior to loan 2. I can see there was a regular £200 payment each month which I assume was the £200 rent he declared. I note Mr A had very few other fixed living costs.

I can see Mr A had again fallen into a cycle of using short-term high-cost credit. But he had said he was borrowing to repay this debt – and the loan value would have allowed him to clear all 13 loans he had, his credit card balance in full and reduce his overdraft from £1,489 to £368. So again it seems it would not cause any adverse financial consequences. Our adjudicator said this meant Mr A would be paying around 10% of his income to cover loan 2 and his remaining overdraft. Using his actual average income it would be even less at around 7.5% and so I think even if AvantCredit had completed better checks it would have reasonably thought Mr A could sustainably afford loan 2.

I accept that it maybe there was some more systemic issue or personal circumstances that had caused Mr A to fall back to using payday loans, but I don't think it would have been proportionate for AvantCredit to undertake such an in-depth review at the time of this second application to discover if this was the case.

It follows I don't think AvantCredit was wrong to give loan 2 to Mr A.

I haven't seen any evidence AvantCredit acted unfairly towards Mr A in some other way.

AvantCredit responded saying it had no further comments. Mr A did not respond.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

As neither party sent in any new comments or evidence I have no reason to change the findings or outcome I set out in my provisional decision. It follows I don't think AvantCredit

was wrong to provide either loan to Mr A.

My final decision

I am not upholding Mr A's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 8 February 2023.

Rebecca Connelley
Ombudsman