

The complaint

Mr M complains through a representative that Advantage Finance Ltd (“Advantage”) gave him a hire purchase agreement without carrying out adequate affordability checks.

What happened

In December 2019, Advantage provided Mr M with a hire purchase agreement for a used vehicle through a credit intermediary. The cash price for the vehicle was £6,610 and no deposit was paid so the full asking price was financed. There was also interest, fees and charges totalling £2,827.80 with Mr M having to repay a total of £9,437.80. If he repaid the loan in line with the credit agreement, Mr M was due to repay the loan through 37 monthly repayments of £243.10 followed by a final payment of £443.10. Mr M had some difficulties repaying the agreement, but it was settled in July 2023.

Mr M, through his representative complained to Advantage in February 2024 about the lack of checks that were carried out before the agreement was entered into. Advantage issued a final response in March 2024, and it didn’t uphold the complaint. Mr M’s representative then referred the complaint to the Financial Ombudsman.

Mr M’s complaint was then considered by an investigator. He said the credit check results contained recent adverse information about a default and a County Court Judgement (CCJ) – they were satisfied the checks weren’t proportionate. The investigator then looked at Mr M’s bank statements and what he had told us about his living situation. The investigator was satisfied that had further checks been made Advantage still would’ve concluded the agreement was affordable.

Mr M’s representatives disagreed with the outcome saying in the months leading up to the finance there were periods of time where Mr M didn’t receive an income and he had recently had a CCJ recorded against him which ought to have prompted further checks. As no agreement could be reached, the complaint has been passed to me, for a 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.

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 needed to make sure that it didn’t lend irresponsibly. In practice, what this means is that Advantage needed to carry out proportionate checks to be able to understand whether any lending was sustainable for Mr M before providing it.

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 was told that Mr M was a single homeowner, earning a gross annual salary of around £39,000 and this amount appears to have been cross referenced using a well-known tool provided by a credit reference agency.

However, despite an electronic check being conducted by Advantage, it also obtained a copy payslip from December 2019. This confirmed he had received a weekly salary of £1,203.12 and in the year-to-date Mr M had received just over £27,500 of income. Having carried out this additional check it established Mr M's monthly income was likely to be around £2,800 and it was this amount that was used for the affordability assessment.

In addition to checking Mr M's income Advantage went about using statistical data derived from several sources to establish Mr M's likely monthly living costs. Taking account of where Mr M lived, it estimated monthly rent payments of £429.66 and government data suggested council tax payments of £75.08.

It then used the information from Mr M's credit file (which I'll come onto below) to work out that his monthly credit costs came to £708.37. Finally, it used Office of National Statistics data for his utilities and these costs came to £116.41. Overall, Advantage worked out Mr M's living costs came to £1,329.52. This left just over £738 per month to cover the loan repayment and any other household living costs. Advantage concluded the loan was affordable.

Advantage also conducted a credit search before granting the agreement and it has provided a copy of the results that it received. I've considered these results to see whether Advantage was given any indication that Mr M was, or was likely having, financial difficulties at the time the agreement was granted.

Having looked at the results, I do have some concerns with the information Advantage gathered because it suggested that Mr M may have been experiencing some financial difficulties. I say this because Mr M had a County Court Judgement – which had been recorded only four months before the agreement was entered in to. And Mr M had also defaulted on a "*Finance House*" account two months before the agreement was entered into.

But I would say, is according to the credit file, the defaulted account was being well maintained until it was suddenly put into default and the monthly repayment that Mr M had to make was more than the defaulted balance. I can't explain this, but nonetheless Advantage was on notice that Mr M had recently impaired credit history.

So, I do think it's fair to say that within the last year Mr M had experienced problems making repayments to two creditors – and those problems had extended close to the time when the agreement was granted.

Like the investigator I don't think Advantage's checks went far enough. Mainly because I have concerns about Advantage's use of statistical data in the circumstances of this complaint because of the recent impaired credit file data. As such I don't think it was fair or reasonable for Advantage to have relied on the statistical data about his living costs when there was cause to question Mr M's overall financial situation.

Advantage's checks could've gone further simply by asking Mr M what his actual living costs were – either by asking for evidence from Mr M about his bills or as I've done, it could've asked for copy bank statements.

But to be clear, I've only used the bank statements to get an idea of what Mr M's regular living costs are likely to have been at the time. – I've not done this because I think Advantage ought to have requested this information as part of underwriting this loan. After all Advantage already had a reasonable idea of Mr M's credit commitments and his income.

I accept that had Advantage conducted proportionate checks it may not have seen all the information that I have seen. But, in the absence of Advantage conducting a proportionate check I do think it's fair and reasonable to consider statements that I now have access to. And having looked at the statements I've come to the same conclusions as the investigator for broadly the same reasons.

Mr M had told us that at the time he was living with a parent and so didn't have any rent or utilities to pay – and that is reflected in the bank statements he has provided. He also said he had about £250 a month for food and £200 a month on fuel – again that seems about right.

There are some other direct debit payments for insurance but overall, had Advantage taken a look at Mr M's bank statements and or other documentation to work out his living costs, it would've come to the same conclusion. That he had sufficient disposable income to afford the repayments.

I also can see from the bank statements. as the investigator pointed out, that in September and October 2019 Mr M doesn't appear to have received an income. Mr M has said he was an agency worker and so that may explain why he didn't receive a wage.

But the payslip showed that over the course of the previous year he had earned over £27,500 and there wasn't anything in what Mr M had told Advantage as part of his application that he was an agency worker, or had irregular work patterns. It therefore follows, that I don't think Advantage would've been aware of this given I'm satisfied it carried out a proportionate check into Mr M's income as part of the assessment.

I've also considered that Mr M had approached the dealership for a vehicle, and the credit file showed that Mr M had been paying another hire purchase agreement for over four years and the credit file showed that Mr M had made all of these payments as expected – as there were no recent adverse payment markers.

So, I don't see a reason why Advantage would've thought, given everything it had gathered and what it saw in the credit file, that Mr M wouldn't be able to sustainably make his repayments towards this agreement or didn't have any enough left over each month to cover any unforeseen circumstances.

I am therefore not upholding Mr M's complaint because had Advantage carried out proportionate checks, these would have shown the loan was affordable and sustainable for him.

Finally, I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Advantage lent irresponsibly to Mr M or otherwise treated him unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

My final decision

For the reasons I've outlined above, I am 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 20 March 2025.

Robert Walker
Ombudsman