DRN-3521323

The complaint

Mr B complains that Moneybarn No.1 Limited irresponsibly granted him credit under a conditional sale agreement he couldn't afford to repay.

What happened

In April 2016 Mr B acquired a used car financed by a conditional sale agreement from Moneybarn. Mr B was required to make an advance payment of £400 followed by 59 monthly repayments of £242.65. The total repayable under the agreement was £14,716.35. Mr B would own the car if he made all his payments. I understand that the agreement was settled in June 2020 and Mr B entered into another agreement with Moneybarn.

Mr B says that Moneybarn didn't complete adequate affordability checks. He says if it had, it would have seen the agreement wasn't affordable. Mr B explained that at that time he and his partner were borrowing from short term lenders and he was behind with the mortgage and other priority bills. Moneybarn didn't agree that its checks were inadequate. It said that it carried out a thorough assessment which included verifying what Mr B had said about his income and checking his credit file. Moneybarn said that while it found some adverse information on his credit file it wasn't of enough concern for it to decline the credit.

Our investigator didn't recommend that the complaint be upheld. They thought Moneybarn didn't act unfairly or unreasonably by approving the finance agreement. Mr B didn't agree with this recommendation and said that our investigator hadn't fully considered the level of borrowing he had from short term and doorstep lenders at the time.

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.

Moneybarn 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.

As mentioned, Moneybarn asked Mr B about his income and verified this by checking his payslips. It also checked his credit file. Moneybarn said in its final response to Mr B about his complaint that "After a review of your credit file at point of sale, although I note that there was defaulted debt evidenced, the amount was considered minimal, and 25 months had passed since this had been entered on your credit file. At the time, there was also sight of a previous county court judgement, but the balance and time elapsed remained within criteria and the details would not necessarily be characteristics that would have prevented you from obtaining finance."

Neither Moneybarn nor Mr B have been able to provide me with a copy of the credit file information available at the time. So I can't say whether or not this information should have raised concerns for Moneybarn to the extent it should have either declined to lend to Mr B or carried out further checks before doing so. However, I can't see that Moneybarn asked Mr B about his expenditure. Although it did complete a credit check, this won't have indicated what his regular living expenses were. Mr B would potentially need to meet his monthly payment for five years and, altogether in this case, I don't think Moneybarn could have reached a reasonable understanding of whether the agreement was affordable or not without knowing what Mr B's regular committed expenditure was.

I can't be certain what Mr B might have told Moneybarn had it asked about his regular expenditure, or what it might have seen if it looked to verify this. In the absence of anything else, I've placed significant weight on the information contained in Mr B's statements as an indication of what Moneybarn would most likely have learned.

I've reviewed three months of bank statements prior to the application. These are joint bank statements and in addition to Mr B's income of around £1,360 I can see another regular income which was higher than his (by a minimum of £200) and child-related benefits of about £280 a month. Mr B has told us that his income and that of his partner went into their joint account and it seems to me that the usual joint monthly expenditure at the time was around £2,000. In calculating this figure, I've included identifiable costs such as housing and bills, car, media and phone costs, existing credit commitments and food. Whether considering joint household finances or assuming Mr B was responsible for half of the costs, this information alone doesn't persuade me that he would have struggled to meet his repayments in a sustainable way.

Mr B says that he and his partner had several loans from high cost and doorstep lenders at that time, which he says would have been shown on his credit file. He explained that the repayments for these were either paid in cash or by transfers from his joint account to his partner's mother, who then made the repayments. Mr B had provided snapshots of his credit file to Moneybarn (when he complained) which show two loans from one of these lenders taken out in January and February 2016 with missed payments, which were still active at the time of his agreement with Moneybarn. I don't have any further details about these loans, or any of the others Mr B has mentioned, though we have given Mr B the opportunity to provide further information. So I don't know, for example, what the balances or repayments were, or who was responsible for meeting these.

Moneybarn provided a statement of the finance account, which I've reviewed, and I can see that Mr B made his payments by direct debit on time for about four years until the agreement was settled early in June 2020. This doesn't necessarily mean Mr B managed to meet his payments without difficulty. However, in this case where it seems these payments would likely have been affordable and in the absence of information about Mr B's existing debts, there isn't anything in the statement of account alone which suggests to me that the payments were unsustainable for him.

Taking everything into account, I can't reasonably conclude that further checks would have shown Moneybarn that Mr B would not be able to meet his payments sustainably and led it to decline to lend to him. So I haven't concluded that Moneybarn acted unfairly in approving the finance on this occasion.

Mr B has also complained that he was told by the dealer that he would be able to readjust his agreement after a year to reduce the interest rate, which didn't happen. Moneybarn told Mr B in its final response to his complaint that it has a loyalty scheme where customers can apply for further finance at a reduced rate once they've made six payments on time and that this might have caused confusion.

I don't know what was discussed between Mr B and the dealership. I haven't seen anything in the customer contact records from Moneybarn to show that Mr B raised a query about reduced rates a year after the agreement began or at any point before he raised his complaint about irresponsible lending in May 2021. Furthermore, I haven't seen anything which suggests that Mr B would not have entered into the agreement if he understood that the interest rate would remain as it was for the length of the agreement. Altogether, I can't say that Moneybarn got something wrong in this regard which would have led to Mr B not entering into the agreement at the time.

My final decision

For the reasons given above, I don't uphold Mr B's complaint about Moneybarn No.1 Limited and don't require it to take any action.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 22 September 2022.

Michelle Boundy
Ombudsman