

The complaint

Miss B complains that Moneybarn No. 1 Limited (“Moneybarn”) irresponsibly lent to her when she took out a finance agreement with them.

What happened

Miss B took out a conditional sale agreement with Moneybarn in May 2020 to acquire a used car. The term of the agreement was 60 months; the total amount payable was £22,950.93, which included an advance payment of £1,400, a loan amount of £11,638, and interest charges of £9,912.93; the monthly repayments were £365.27; and the cost price of the car acquired was £13,038.

Miss B believed Moneybarn shouldn't have lent to her as she had bad credit at the time and defaults on her credit file. She also believed the amount lent to her was unaffordable. Since taking out the agreement with Moneybarn, she said she has been in financial difficulty.

Miss B complained to Moneybarn in February 2022 and, among other things, wanted all her interest she had paid refunded back to her, along with any interest that is remaining to also be waived. Moneybarn gave their final response to her in March 2022.

Moneybarn didn't uphold Miss B's complaint and they explained that as part of their application process, they performed several different checks on which they based their decision to offer Miss B credit. This included, among other things, a credit search, independently verifying Miss B's stated monthly income, and also assessing her ongoing monthly borrowing commitments at the time the application was made. At the time, they said they concluded Miss B's borrowing levels were within their lending criteria. They said they noticed Miss B had previously defaulted on some other borrowing, but this was around almost four years prior to the application and they could see Miss B was making contributions to paying back the outstanding amount. They also said that Miss B agreed to her net monthly income not being less than £1,845.95 and her total non-discretionary monthly expenditure not exceeding £595.80 when she signed the agreement. So, in summary, Moneybarn couldn't agree that they were irresponsible in their decision to enter into this finance agreement with Miss B.

Miss B, unhappy with Moneybarn's response, referred her complaint to our service. She believed her salary at the time to be around £1,622 per month – so less than the net monthly income of £1,845 Moneybarn used. Miss B also provided bank statements for the months preceding applying for the credit and she believed it showed that her monthly expenditure exceeded the non-discretionary monthly expenditure figure of £595.80 Moneybarn used. She also said that the payslips Moneybarn had relied on were not an accurate reflection of her income as she had recently started a job with a new employer and there were some inconsistencies in her pay during her initial months there.

Moneybarn provided copies of documents and information they had relied on to reach their outcome. Among the documents provided was Miss B's payslip for March 2020 which showed her net pay for that month to be £2,138.27.

Our investigator found that Moneybarn didn't need to do anything further. He explained that he looked into whether Moneybarn completed reasonable and proportionate checks to satisfy itself that Miss B would be able to repay the agreement in a sustainable way. He concluded that Miss B's credit file ought to have indicated to Moneybarn that Miss B was overly reliant on borrowing and that further borrowing may not have been sustainable. So, he thought it would have been proportionate for Moneybarn to have got a more thorough understanding of Miss B's financial circumstances before lending to her.

Our investigator then went on to consider whether reasonable and proportionate checks would have shown that Miss B would have been able to repay the agreement in a sustainable way. He considered what Miss B had told him, including reviewing the bank statements provided and he found that it was likely Miss B had the disposable income to be able to sustainably make the required payments for the duration of the term. So, he didn't think Moneybarn ought to have reasonably discovered that the agreement would likely have been unaffordable for Miss B and so he wasn't persuaded they had made an unfair lending decision to her.

Miss B disagreed with the investigator's findings and requested it to be referred to an ombudsman.

At the end of February 2023, Miss B said that she would like to provide further evidence to support her complaint – specifically, information from the brokers who arranged the car finance. She said the brokers would take up to 30 days to send the information she required. As of the end of April 2023, Miss B still had not provided that additional information, despite giving her further extensions to provide it.

And so it has been passed to me to decide.

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.

Having done so, I'm not upholding this complaint and I'll explain why below.

If there's something I've not mentioned, it isn't because I've ignored it. I haven't. I'm satisfied I don't need to comment on every individual point or argument to be able to reach what I think is a fair outcome. Our rules allow me to do this. This simply reflects the informal nature of our service as a free alternative to the courts.

We've set out our approach to unaffordable/irresponsible lending complaints on our website – including the key relevant rules, guidance, good industry practice and law. I've considered this approach while deciding Miss B's complaint.

Moneybarn needed to make sure it didn't lend irresponsibly. This means it needed to carry out proportionate checks to satisfy itself that Miss B could afford to repay the amount it was lending. A proportionate check is dependent on a number of factors including – but not limited to – Miss B's particular circumstances (e.g. her financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit obtained.

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. I've carefully thought about what this means for Miss B's case.

In this case, Moneybarn lent to Miss B in 2020 and they say it agreed to Miss B's application after carrying out a credit search and taking some income and expenditure information. They also say in their final response to Miss B that they used statistical data to estimate the level of Miss B's non-discretionary expenditure. On the other hand, Miss B says the information Moneybarn relied on wasn't accurate and should have seen she had bad credit at the time.

Were reasonable and proportionate checks completed?

The loan was taken out to acquire a car. While Moneybarn hasn't been able to provide a copy of a credit search completed, they have provided a reference number to show a search had been completed by them. They also provided details of what they believed to be Miss B's declared income and expenditure for her application, as they said Miss B agreed to it when she signed her agreement. They also said they relied on this when deciding to approve the credit.

I have seen a copy of Miss B's credit file. Within it, I can see Miss B defaulted on two accounts with a third-party. Once in 2017, a few years prior to taking out credit with Moneybarn. And several years prior in 2013, Miss B defaulted on an account.

Thinking about things here, I think Miss B's credit file should have alerted Moneybarn to carry out further checks on her, due to the relatively recent default recorded on her file. I accept Miss B may have been making contributions to paying back the amount owed on her defaulted account. But given the adverse information that would have been appearing on her file, I can't fairly conclude reasonable and proportionate checks were completed at the time this loan was approved, even if payments were being made to the defaulted account.

Would reasonable and proportionate checks have shown that Miss B could repay the agreement in a sustainable way?

I've gone on to consider what reasonable and proportionate checks might have uncovered and whether it would have shown that Miss B wouldn't have been able to repay the agreement in a sustainable way. Among other things, I've relied on bank statements Miss B has provided.

Moneybarn recorded Miss B's net monthly income as £1,845, although it had a payslip of Miss B's which shown her monthly income for March 2020 to be around £2,140. Bank statements provided by Miss B around the months the credit was taken out with Moneybarn show her net income as around £1,650 in April 2020 and around £1,622 in May 2020. The average net monthly income Miss B received for those specific three months was around £1,800.

Miss B also provided some details on her non-discretionary outgoings in the preceding months. She explained that rent and utilities were being paid directly by her sibling who she was living with. But she provided screenshots of her statements, where she transferred money fairly frequently for these payments to her sibling. In March 2020, Miss B shown her household bills to come to around £435 for March 2020, around £330 for April 2020 and around £435 for May 2020. Her average share for the household bills for those specific months was around £400 per month.

When reviewing her bank statements, her monthly food outgoings were significantly different month on month – and varied between spending at supermarkets and at fast food outlets. In March 2020, for example, her spending at supermarkets was around £100, but in April and May 2020, it was around £450 per month.

Miss B's discretionary outgoings were also significantly different month on month. In March 2020, her statements appeared to show spending of around £90. But in April 2020, there was discretionary spending of over £800. Large spending on her account seemed to coincide with similar transfers of money into her account from individuals.

I have also noted Miss B made a regular monthly payment of around £120 to a credit card company. In addition, from her bank statements, it appears that Miss B was frequently using an overdraft facility she held on one of her accounts. The monthly fees for this overdraft facility were fairly minimal.

Miss B has also provided a statement which shows that she received around £2,800 in total in two separate student loan disbursements in April 2020. I haven't considered or relied on this in my findings as these payments into her account were likely accounted for in her outgoings.

Taking everything into account here, I don't think there was anything in Miss B's transactions which contradicted the income figure Moneybarn used as it was broadly similar. While the expenditure figure Moneybarn used was lower than her actual expenditure at the time, given the monthly repayment amount of the loan being around £365; Miss B's net monthly income being roughly £1,800; and non-discretionary spending generally being around £1,000 per month in total, I think it was fair to conclude the repayments looked like they should have been affordable for Miss B.

Did Moneybarn act unfairly or unreasonable in some other way?

I've also looked at whether Moneybarn was aware or ought to reasonably have been aware, that Miss B could be in financial difficulties by reviewing her use of her account. And if so, whether it was appropriate for Moneybarn to apply any interest, fees and charges.

Once a lender is aware a borrower is experiencing financial difficulty, we would expect it to exercise forbearance and due consideration, in line with its regulatory obligations. Ultimately, we'd expect a lender to listen to a borrower, get an understanding of their circumstances and then assess the most appropriate way to move forward.

Moneybarn must also monitor their customer's repayment record and take appropriate action where there are signs of actual or possible repayment difficulties.

I can see from internal notes Moneybarn provided that Miss B made them aware of her difficulty to repay some monthly instalments. I'm sorry Miss B found herself in financial difficulty. I accept at times Miss B may have had difficulty repaying in some months. However, I've noted at times that Moneybarn gave Miss B repayment holidays to help support her get back on track and to give some breathing space. I'm satisfied Moneybarn did enough here once they were aware Miss B had financial difficulties.

Furthermore, I can see from internal system notes Moneybarn provided that Miss B told them she lost her job in June 2020 due to the pandemic. So, it is likely the real reason for Miss B's inability to make her repayments to this agreement was Miss B being unable to work as a result of the pandemic. I don't think anyone could have foreseen the effect that the pandemic would have and therefore I can't reasonably say that Moneybarn ought to have realised that this would have impacted on Miss B's finances in the way that it did.

In order to uphold this complaint I have to be able to say a lender acted unfairly or unreasonably in some way. And, in this case, I don't think they had. I accept reasonable and proportionate checks may not have been completed by Moneybarn in relation to the loan taken out. But I'm satisfied that carrying out reasonable and proportionate checks wouldn't have stopped Moneybarn from providing these funds, or entering into this agreement. I'm also satisfied Moneybarn responded to Miss B with forbearance and due consideration once it was aware that she was in financial difficulty.

I appreciate my outcome will be very disappointing for Miss B, but I hope that setting out the reasons as I've done will help explain how I've reached my decision and that she'll at least feel her concerns have been listened to.

My final decision

For the reasons I've explained, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 26 May 2023.

Ronesh Amin
Ombudsman