DRN-3977816

The complaint

Mr H complains that Moneybarn No. 1 Limited (Moneybarn) irresponsibly gave him a conditional sale agreement he couldn't afford.

What happened

In April 2018, Mr H acquired a used car using a conditional sale agreement from Moneybarn. The cash price of the car was £7,650 and this was financed by the credit agreement. Mr H was required to make 42 monthly repayments of £307.63.

Mr H complained to Moneybarn in March 2022. He said their decision to lend to him was irresponsible, as he had a poor credit history and the agreement made things worse.

Moneybarn sent Mr H their final response to his complaint in April 2022. They said they'd completed a credit search for Mr H, verified his income by way of wage slips and used a calculation to allow for appropriate expenditure before making the decision to lend to Mr H. Moneybarn said these checks showed that Mr H's existing borrowing levels were moderate, he had no County Court Judgements (CCJ's) and although he'd defaulted on some previous borrowing, the most recent was 18 months ago and the evidence showed this was being repaid.

Moneybarn said based on their checks, the agreement was affordable, and Mr H had maintained his payments, so they didn't agree that their decision to lend to Mr H was irresponsible.

Unhappy with their response, Mr H brought his complaint to this service for investigation. He said Moneybarn should've checked his bank statements before agreeing to lend to him and, if they'd done so, they'd have seen that he'd been unable to keep up with his committed expenditure. Mr H said Moneybarn's interpretation of his income and expenses was inaccurate.

Our investigator gave his view that he didn't think Moneybarn had completed reasonable and proportionate affordability checks before granting the finance to Mr H. However, he thought that if Moneybarn had completed more thorough checks it would likely have concluded that the lending was affordable to Mr H, so he didn't think Moneybarn needed to do anything more.

Mr H didn't agree. He said his expenditure looked too low, his wife's salary had been unusually high in the months leading up to the finance application, and she had some committed expenditure which hadn't been taken into account.

As an agreement can't be reached, the case 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.

Before granting credit, Moneybarn were required to take steps to ensure the borrowing was affordable and sustainable for Mr H. There isn't a set list of checks that had to be completed, but the relevant rules required Moneybarn to complete proportionate affordability checks.

What is considered proportionate will vary in each case as there isn't a one-size-fits-all approach to assessing affordability. In deciding what is proportionate, Moneybarn needed to take into consideration things such as (but not limited to): the total repayable, the size of the monthly repayments, the total charge for credit and Mr H's individual circumstances.

The total repayable was around £13,000 over a three-and-a-half-year term. This was a relatively significant financial commitment and therefore my starting point is that any proportionate affordability check ought to have been relatively thorough.
Moneybarn says it completed a credit check to understand Mr H's current financial commitments. I haven't seen the data gathered from the credit check completed by Moneybarn, although they did acknowledge that they saw Mr H had no CCJ's and it'd been 18 months since he'd had a default registered.

I've seen evidence that Mr H has supplied of his credit file, and this shows that Mr H had three finance agreements with balances of £4,912 showing in default when he applied for the agreement.

Moneybarn said they reviewed Mr H's income and expenditure by reviewing Mr H's payslips. The payslips confirm Mr H's average income to be around £2,600. Based on Mr H's average net income they calculated that the repayments on the agreement represented 11.61% of Mr H's income. Moneybarn said they wouldn't approve an application if the proposed repayment was more than 25% of net income, and so on this basis the agreement was affordable. I haven't seen any evidence of how Moneybarn calculated Mr H's commitments.

Given the size of the borrowing, and the balances of defaults that Moneybarn could see on Mr H's credit file, I don't think the affordability checks were reasonable or proportionate. I think Moneybarn should have completed a more thorough assessment of Mr H's circumstances before agreeing to lend to him. I think a proportionate affordability assessment ought to have included a more detailed verification of Mr H's committed expenditure.

It's not clear exactly what information Moneybarn would have reviewed if it had tried to verify Mr H's expenditure. In the absence of any check Moneybarn completed, I've relied on copies of Mr H's bank statements from the months leading up to the lending decision. I'm not suggesting Moneybarn were required to check bank statements, but I think these give a good indication of what information Moneybarn would likely have discovered if it had completed more thorough checks.

Mr H's partners income was also paid into the account. Mr H's income was around 63% of what was coming into the account, and so I've considered his share of the committed expenditure.

The statements show that Mr H's share of regular committed expenditure for things such as rent, bills and credit commitments was around £1,900. This figure doesn't include food, petrol or other household expenditure. His income appeared to be around £2,600.

After taking into account what Mr H appeared to be regularly spending on other living costs such as food and petrol and thinking about other additional costs such as road tax and maintenance, it seems he still had sufficient disposable income to meet the monthly payment towards the Moneybarn agreement and have funds left over for any unforeseen emergency expenses or modest increases in outgoings. I therefore think that proportionate affordability checks would mostly likely have shown the agreement was affordable to Mr H.

Mr H has said that his partners income had been unusually high in the months leading up to taking the agreement, and it was regularly around £200 a month less.

I've seen evidence that Mr H's partners income was lower in the month's following the agreement, but I'm not persuaded that this changes what Moneybarn would've seen if they'd completed proportionate checks at the time the agreement was entered into.

Whilst Moneybarn weren't required to check bank statements, they are a good indication of what Moneybarn would've discovered and, I think Moneybarn are unlikely to have discovered that Mr H's partners income was unusually high in the months preceding the agreement.

This means I don't think Moneybarn made an unfair lending decision when it gave Mr H the conditional sale agreement.

My final decision

For the reasons set out above, my final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 11 May 2023.

Zoe Merriman
Ombudsman