

Complaint

Ms O complains that Moneybarn No.1 Ltd (“Moneybarn”) unfairly entered into a conditional-sale agreement with her. She’s said the agreement was unaffordable and so she shouldn’t have been accepted for it.

Background

In November 2017, Moneybarn provided Ms O with finance for a used car. The cash price of the vehicle was £7,300.00 and Ms O paid a deposit of £900. Ms O applied for a loan to cover the remaining £6,400.00. The loan had interest, fees and total charges of £5,979.38 and the total amount to be repaid of £13,279.38 was due to be repaid in 59 monthly instalments of £209.82.

In October 2022, Ms O complained that the payments to her agreement were unaffordable and so the finance should never have been provided to her. Moneybarn looked at the complaint and didn’t uphold it. It said that the checks completed before the agreement was entered into confirmed that the finance was affordable and so it was reasonable to lend.

Ms O’s complaint was considered by one of our adjudicators. He didn’t think that Moneybarn had done anything wrong or treated Ms O unfairly. So he didn’t recommend that Ms O’s complaint should be upheld. Ms O disagreed with our adjudicator and the complaint was passed to an ombudsman for a final decision.

My findings

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 Ms O’s complaint.

Moneybarn needed to make sure that it didn’t lend irresponsibly. In practice, what this means is that Moneybarn needed to carry out proportionate checks to be able to understand whether Ms O could make her payments in a sustainable manner before agreeing to lend to her. And if the checks Moneybarn carried out weren’t sufficient, I then need to consider what reasonable and proportionate checks are likely to have shown.

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.

Having carefully thought about everything I've been provided with, I'm not upholding Ms O's complaint. I'd like to explain why in a little more detail.

Moneybarn says it agreed to this application after it completed an income and expenditure assessment on Ms O. During this assessment, Ms O provided details of her monthly income. Moneybarn says it also carried out credit searches on Ms O which showed some low outstanding balances on existing credit.

But when the amount Ms O already owed plus a reasonable amount for Ms O's living expenses, based on statistical data from the Office of National Statistics, were deducted from her monthly income the monthly payments were still affordable. On the other hand, Ms O says she was already struggling at the time and that these payments were unaffordable.

I've thought about what Ms O and Moneybarn have said.

The first thing for me to say is that I don't think that the checks Moneybarn carried out did go far enough. In my view, Moneybarn needed to take further steps to verify Ms O's actual living costs, rather than rely on statistical data, in order for its checks to have been proportionate.

As Moneybarn didn't carry out sufficient checks, I've gone on to decide what I think Moneybarn is more likely than not to have seen had it obtained further information from Ms O. Bearing in mind, the length of time of the agreement and the amount of the monthly payment, I would have expected Moneybarn to have had a reasonable understanding about Ms O's regular living expenses as well as her income and existing credit commitments.

I've considered the information Ms O has provided us with – including her bank statements. And having done so, this information does appear to show that when Ms O's committed regular living expenses and existing credit commitments are deducted from her monthly income at the time, she did have the funds, at the time at least, to sustainably make the repayments due under this agreement.

What I'm required to think about here in order to determine whether Moneybarn acted fairly and reasonably towards Ms O, is whether Ms O had sufficient disposable income to enable her to make the monthly payments to this agreement. And having considered everything, I'm satisfied that the available information indicates that Ms O did have sufficient funds left over to make her monthly payments in a sustainable manner.

So overall and having carefully considered everything, while I don't think that Moneybarn's checks before entering into this hire purchase agreement with Ms O did go far enough, I'm satisfied that carrying out reasonable and proportionate checks won't have prevented Moneybarn from providing these funds, or entering into this agreement with her. I'm therefore satisfied that Moneybarn didn't act unfairly towards Ms O when it agreed to provide the funds and I'm not upholding Ms O's complaint.

I appreciate that this will be very disappointing for Ms O. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

My final decision

My final decision is that I'm not upholding Ms O's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms O to accept or reject my decision before 5 July 2023.

Jeshen Narayanan
Ombudsman