DRN-4291092

The complaint

Mr B is complaining about Moneybarn No.1 Limited trading as Moneybarn. He says they shouldn't have lent to him as the loan was unaffordable. Mr B's complaint was brought to our service by a representative but for ease I've written as if we've dealt directly with him.

What happened

In December 2019, Mr B took out a conditional loan agreement with Moneybarn, to finance the purchase of a car. Mr B paid a deposit of £500 and borrowed £4,094, to pay the cash price of £4,594. The agreement required him to make 35 monthly repayments of £201.05. Mr B first missed a payment in January 2021 and has struggled to maintain payments since.

In January 2023, Mr B complained to Moneybarn, saying they shouldn't have lent to him because the loan was unaffordable. He said he'd missed payments against a short-term loan in November 2019 and his credit history since December 2019 demonstrated his reliance on borrowing. He said Moneybarn hadn't conducted thorough, appropriate and reasonable checks when deciding to lend to him.

Mr B also complained that Moneybarn hadn't treated him with forbearance and due consideration when he fell into arrears.

In response, Moneybarn said they'd done a full credit search with one of the credit reference agencies (CRA). They added that they'd verified Mr B's income using the CRA and used statistical data from the Office of National Statistics (ONS) to estimate Mr B's non-discretionary expenditure. They said they'd also used the information from Mr B's credit file to assess his ongoing credit commitments at the time of his application.

Moneybarn said they assessed Mr B's net monthly disposable income at around £500 which was enough to cover the repayments on the agreement. They added that in signing the contract Mr B had confirmed that his net monthly income wasn't less than £1,400 and his non-discretionary expenditure was no more than £700.90.

In relation to Mr B's account conduct, Moneybarn noted Mr B had made his first six monthly repayments on time. They said after that his financial position had fluctuated but this seemed to be because of changes in personal and financial circumstances instead of because of the lending decision. Moneybarn added that they'd taken appropriate steps to help Mr B including obtaining income and expenditure details and setting up an affordable payment plan for him.

Mr B remained unhappy so he brought his complaint to our service. Our investigator didn't uphold the complaint though. She said that she didn't think Moneybarn's checks were proportionate but that even if they had done proportionate checks they'd have decided the agreement was affordable for Mr B. Our investigator also felt Moneybarn had treated Mr B fairly when he was facing financial difficulties.

Mr B disagreed with the investigator's view. He said at the time of the lending decision:

- his expenditure was much higher than the amount estimated by Moneybarn and by our investigator;

- our investigator had overstated his income;
- he was actively paying another credit provider £380 - £500 a month; and
- he had an active payday loan and two defaulted accounts.

Mr B and our investigator were unable to reach agreement – so the complaint's come 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.

The Financial Conduct Authority (FCA) sets out in a part of its handbook known as CONC what lenders must do when deciding whether or not to lend to a consumer. In summary, a firm must consider a customer's ability to make repayments under the agreement without having to borrow further to meet repayments or default on other obligations, and without the repayments having a significant adverse impact on the customer's financial situation.

CONC says a firm must carry out checks which are proportionate to the individual circumstances of each case.

Did Moneybarn carry out proportionate checks?

Moneybarn say they checked Mr B's credit file. They've not retained a copy of the credit file but they've told us Mr B had five outstanding defaults, one of which was five months old at the time of the lending decision. They've said the credit file showed Mr B had around £3,300 outstanding on his defaults, against original default balances totalling £3,400. But, they said, it showed Mr B had no active credit commitments.

Moneybarn also used CRA data to verify Mr B's income, at £1,400 per month. And they used ONS data to estimate his expenditure, at £700 per month. They included a "buffer" of around £200 per month and calculated he had disposable income of around £500 per month – enough to comfortably manage the repayments on the proposed conditional sale agreement.

Given Mr B's recent default, I don't think it was enough for Moneybarn to rely on statistical data and automated checks when assessing the affordability of the agreement for Mr B. The default suggests that Mr B wasn't able to meet existing credit commitments and was therefore an indication that the statistical data might not be applicable to him.

If Moneybarn had carried out proportionate checks, what would they have found?

A proportionate check would have involved Moneybarn finding out more about Mr B's income and expenditure to determine whether Mr B would be able to make repayments in a sustainable way.

I've looked at statements for Mr B's bank account for the three months preceding his application to Moneybarn – September, October and November 2019. I'm not saying Moneybarn needed to obtain bank statements as part of their lending checks. But in the absence of other information, bank statements provide a good indication of Mr B's financial circumstances at the time the lending decision was made.

These statements show Mr B's income was, on average, around £1,250 per month. Mr B was paying £400 a month for rent and had a few other regular payments for gym membership, mobile phone and TV – but these only totalled around £60 per month. There's no evidence in the statements of other regular expenditure - much of his spending seems to have been discretionary – for example on takeaways and going out, as well as on gambling.

Deducting Mr B's rent, the proposed monthly repayments on this agreement, and his other regular payments from his income leaves Mr B with monthly disposable income at the time of around £590. This doesn't allow for spending on essentials such as food as there was limited evidence of spending on groceries in the statements. But I'm satisfied £590 per month would have been enough for these essentials. On balance, I'm satisfied that if Moneybarn had done more checks, they'd still have decided the agreement was affordable for Mr B– his income was significantly higher than his non-discretionary expenditure.

In responding to our investigator's view, Mr B mentioned that he was paying around £380 - £500 per month to another credit provider. But this was short-term revolving credit – he'd draw the funds and then pay it back with interest within a few weeks. He wasn't paying this amount from his income. He also mentioned he had an active payday loan and two defaulted accounts. People choose to manage their money in different ways and although these can be indicators of financial difficulties, Mr B's income and spending suggest the agreement was affordable for him.

Did Moneybarn treat Mr B unfairly in any other way?

I've considered Mr B's complaint that Moneybarn didn't treat him with forbearance and due consideration when he fell into arrears. I've reviewed all Moneybarn's notes on Mr B's file and I can see there were extensive communications between Moneybarn and Mr B. Moneybarn allowed Mr B a two-month payment holiday and allowed him to skip payments and rearrange payment dates. They discussed payment plans on several occasions, including carrying out an income and expenditure assessment with Mr B on two separate occasions. They also referred Mr B to a debt advice charity.

I can see that Moneybarn warned Mr B that there was a risk his credit file would be affected by his missed payments. And I can see they warned him that they may need to end the agreement and collect the car. Both of these warnings were appropriate given Mr B's levels of arrears. As far as I've seen, they were given in an appropriate way. I haven't seen any evidence that they treated Mr B unfairly – I'm satisfied Moneybarn did treat Mr B with forbearance and due consideration.

My final decision

As I've explained above, I'm not upholding Mr B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 21 September 2023.

Clare King
Ombudsman