

The complaint

Miss W is complaining about Moneybarn No. 1 Limited. She says they shouldn't have lent to her because the repayments weren't affordable. Miss W's complaint has been brought to us by a representative but for ease I've written as if we've dealt directly with her.

What happened

In August 2019, Miss W took out a conditional sale agreement with Moneybarn to finance the purchase of a car. She paid a deposit of £400 and borrowed £6,750 – the cash price of the vehicle was £7,150. The agreement required Miss W to make 59 monthly repayments of £265.13. Miss W struggled to make her repayments almost from the start of the agreement and her statement shows a number of returned direct debits and missed payments.

Miss W complained to Moneybarn in February 2023, saying Moneybarn had failed to conduct appropriate affordability checks before lending to her.

In response, Moneybarn said they'd checked Miss W's income to payslips and verified this was £1,386 per month. They said they estimated her non-discretionary expenditure at £701 per month using data from the Office for National Statistics (ONS) and added £25 per month in credit commitments and a buffer of £192 per month to arrive at a figure for net disposable income of £467. This was enough to determine that the repayments of £265 were affordable.

They also said they'd checked her credit file and as well as looking at Miss W's repayment history they used this to assess her monthly borrowing commitments.

Moneybarn said they could see Miss W's borrowing levels were moderate and there were no reported missed payments on her credit file. They said her most recent default was four months prior to her application and they could see she was making repayments towards the amounts owed. They also said they'd seen a County Court Judgment (CCJ) had been entered four months before Miss W's application, and that Miss W had an Individual Voluntary Arrangement (IVA) at the time but the IVA practitioner confirmed they were happy for Miss W to proceed with the finance agreement.

Miss W brought her complaint to our service, adding that she was in a lot of debt at the time of the loan and already experiencing financial difficulties which have worsened since because of various changes in circumstances.

One of our investigators looked into the matter but didn't uphold Miss W's complaint. He said he wasn't satisfied Moneybarn had completed proportionate checks but he felt the agreement was likely affordable for Miss W and Moneybarn could have fairly decided to lend to her.

Miss W rejected our investigator's view. She said her monthly outgoings were higher than our investigator had assessed – she said her rent was £565, telecommunications bills were around £140, insurance was around £85, existing hire purchase agreement was £265, other bills were around £50, and her groceries and petrol came to around £220 per month. Miss W said against monthly income of £1,386 this level of expenditure meant monthly repayments of £265 weren't affordable.

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, and recognising it'll be disappointing for Miss W, I'm not upholding her complaint. My reasons are broadly the same as our investigator's – I'll explain below.

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 said they'd looked at Miss W's credit file which showed that her existing borrowing levels were moderate and there were no recent missed payments. They said the credit file showed Miss W had defaulted on some borrowing, the most recent of these was four months prior to her application, and Miss W also had a CCJ entered four months before the agreement and had an IVA in place.

Moneybarn also said they carried out an income and expenditure assessment. They verified Miss W's monthly net income at £1,386 using Miss W's payslips, and they estimated her non-discretionary expenditure at around £700 using ONS data. They added on £25 for her borrowing commitments and around £192 as a buffer and calculated that Miss W had monthly disposable income of around £467 – which was more than enough for monthly loan repayments of £265. It's not clear why Moneybarn only included £25 for borrowing commitments when Miss W had an existing hire purchase agreement – but it's possible that it wasn't included in the credit report they obtained. Different credit providers report to different credit reference agencies (CRA) so the CRAs' reports can differ.

CONC allows firms to use statistical data in their affordability assessments unless they have reason to suspect that a customer's non-discretionary expenditure is significantly higher than that described in the data. In this case, Miss W's recent defaults, CCJ and IVA suggested that Miss W might be in financial difficulties – and therefore that her non-discretionary expenditure might be higher than described in the data. In addition, the loan was for a period of nearly five years, and Miss W had a relatively low income. So I'm not satisfied it was proportionate for Moneybarn to rely on the statistical data. I think they should have done more.

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

A proportionate check would have involved Moneybarn finding out more about Miss W's expenditure to determine whether she'd be able to make the repayments in a sustainable way.

I've looked at the summary of expenditure Miss W sent us and compared this to statements for Miss W's bank accounts for the three months around the time of her application to Moneybarn. 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 Miss W's financial circumstances at the time the lending decision was made.

Having done so, I think Miss W has slightly overstated the monthly repayments on her existing hire purchase agreement – which were around £230 per month on average. And I think she's understated her expenditure on groceries and petrol – this looks to have been around £250 each month.

So I think Miss W's non-discretionary expenditure was around £1,320 per month before entering into the agreement with Moneybarn. At first glance, that would suggest the loan was unaffordable for Miss W – it would leave her with only around £70 from which to make the payments of £265.

I then looked more closely at Miss W's income – it appears at the time she was receiving a contribution from her partner towards rent and bills of around £390 per month. I say this because there was a significant receipt from her partner at around the same time as the rent was paid each month. Both this and Miss W's income from employment were variable so I've looked at her average monthly income across June, July and August 2019. Miss W's average total income from employment and her partner's contributions was around £1,740.

Deducting expenses of £1,320 from this figure left Miss W with around £420 disposable income from which to cover the repayments of £265 per month – so with £155 per month leftover. On that basis I'm satisfied that if Moneybarn had done proportionate checks they could have fairly decided to lend to Miss W.

I'm aware Miss W's been through a number of changes of circumstances which have affected both her financial position and her mental health and appreciate how difficult this must have been. But I can't say Moneybarn should have anticipated this when lending to her and I don't think they've treated her unfairly since. I'd remind Moneybarn of their ongoing responsibility to treat Miss W with forbearance and due consideration in relation to the outstanding amounts under the agreement.

My final decision

As I've explained above, I'm not upholding Miss W's complaint about Moneybarn No. 1 Limited.

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

Clare King
Ombudsman