DRN-4339801

The complaint

Miss M is complaining about Moneybarn No.1 Limited (Moneybarn). She says they shouldn't have lent to her as the loan was unaffordable. Miss M's complaint was brought to our service by a representative but for ease I've written as if we've dealt directly with her.

What happened

In September 2019, Miss M took out a conditional loan agreement with Moneybarn, via a broker, to finance the purchase of a car. Miss M paid a deposit of £400 and borrowed £4,200, to pay the cash price of £4,600. The agreement required her to make 54 monthly repayments of £170.01. Miss M deferred a payment in September 2020 but made this up over the following months. In August and September 2022, her direct debits bounced and again she made up those missed payments in the months that followed.

In December 2022, Miss M complained to Moneybarn, saying they shouldn't have lent to her because the loan was unaffordable. She said her income had been very low and unreliable at the time of the lending decision. And she said Moneybarn had verified her disposable income and it was very low.

In their response, Moneybarn said they'd conducted a full credit search and also verified Miss M's monthly income using a current account analysis done by a Credit Reference Agency (CRA). Moneybarn added that they used data from the Office for National Statistics (ONS) to estimate Miss M's level of non-discretionary expenditure. Overall they were satisfied they'd done enough checks and the agreement was affordable for Miss M.

Miss M remained unhappy so brought her complaint to our service and one of our investigators looked into it. She said she didn't think Moneybarn had completed proportionate checks – but she thought if they had their checks would have shown the loan was affordable for Miss M. So she didn't uphold the complaint.

Miss M disagreed. She said with the number of defaulted accounts she had and the amount due across those accounts it was irresponsible to lend to her even if the repayments appeared to be affordable from her income and expenditure. She added that a family member had been paying most of the repayments and that she'd ended up returning the car before the end of the agreement. Finally she said that when she was arranging the finance the broker's representative suggested she speak to family members to ask if they could help with the money. She asked for a decision and the complaint's come to me.

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 Miss M's complaint for broadly the same reasons as our investigator - 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 M's credit file which showed that her existing borrowing levels were very low and there were no recent missed payments. They said the credit file showed Miss M had defaulted on some borrowing, the most recent of these was three months prior to her application, there were no County Court Judgments, and the amounts weren't of concern.

Moneybarn haven't provided a copy of the credit report they looked at – so I've looked at the one Miss M provided. This shows Miss M had five defaults – one for water, and four for mail order credit. Two were registered in April 2018 and the other three in June 2019 – just three months before Moneybarn decided to lend to her. The credit report suggests that the only active lines of credit Miss M had at the time were for water (a new account) and car insurance.

Moneybarn also said they carried out an income and expenditure assessment. They verified Miss M's monthly net income at £1,050 using a CRA tool, and they estimated her non-discretionary expenditure at around £527 using ONS data. They added on £71 for her borrowing commitments and around £137 to cover variations in estimates and calculated that Miss M had monthly disposable income of around £315 – which was more than enough for monthly loan repayments of £170.

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 M's recent defaults suggested that Miss M 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 M had a low income entirely from benefits. 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 M's income and expenditure to determine whether she would be able to make repayments in a sustainable way.

I've looked at statements for Miss M's bank account for the three months preceding his application to Moneybarn – June, July and August 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 Miss M's financial circumstances at the time the lending decision was made.

The statements show Miss M's monthly net income was around £975 per month. On top of her benefits income, she was receiving money from an individual – but she's told us that she was borrowing this and then repaying it each month. And she had receipts into her current account from her savings account – but these were offset in full each month by payments into her savings account. So I'm satisfied Miss M's only regular income was £975 per month.

Miss M's told us she wasn't paying rent – it was paid directly in housing benefits. Her statements show little in the way of regular expenditure – on average I can see around £30 per month for mobile and broadband, around £40 for electricity and gas, and around £71 per month for car insurance. She doesn't appear to have been making any payments against her defaulted debts, and had no direct debits apart from her car insurance. Miss M was paying for food and petrol – on average spending around £300 - £400 per month on groceries, fuel and other essentials.

This gives a total of up to around £550 per month of non-discretionary expenditure. Deducting this and £170 per month for Moneybarn's loan repayments suggests it would have been reasonable for Moneybarn to decide Miss M had around £250 net disposable income for discretionary spending – and therefore that the loan was affordable for her.

I appreciate Miss M's said she was told to ask family members to help with her finances. But looking at the figures set out above, it doesn't look like this would be necessary. I also realise Miss M wasn't making repayments against her defaulted debts – and that she borrowed from friends and family, occasionally used her overdraft, and rarely had money to spare in her current account. But I can see she was spending money on non-essentials, and withdrawing significant amounts of cash which also appears to have been for non-essentials. So, while I realise it'll be disappointing for Miss M, I can't say Moneybarn should have decided the loan was unaffordable for her.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 9 October 2023.

Clare King
Ombudsman