

The complaint

Mrs T is complaining about Moneybarn No.1 Limited. She says they shouldn't have lent to her as the loan was unaffordable.

What happened

In November 2016, Mrs T took out a conditional loan agreement with Moneybarn, to finance the purchase of a car. She paid a deposit of £400 and borrowed £4,595 to pay the cash price of £4,995. The agreement required her to make 41 monthly repayments of £205.03. Mrs T missed a payment in January 2017 when a direct debit bounced. But she went on to make up the arrears and then settled the agreement early, taking out a new agreement with Moneybarn for a different vehicle in July 2018.

Mrs T paid a deposit of £856 for the new agreement, borrowing £7,139 to cover the cash price of £7,995. This agreement required her to make 59 monthly payments of £239.27 but she started to struggle in April 2019, with a bounced direct debit in that month and then again in June 2019. Mrs T made most of the monthly payments that followed up until September 2021 but then missed two further payments and Moneybarn terminated the agreement in November 2021.

In January 2023, Mrs T complained to Moneybarn, saying they were irresponsible in lending to her in both 2016 and 2018. For the avoidance of doubt, this decision only deals with Moneybarn's second lending decision.

In response to Mrs T's complaint, Moneybarn said they'd done a full credit search with one of the credit reference agencies. They said this showed Mrs T had some defaulted accounts but the most recent was 25 months prior to her application and there were no other credit accounts with adverse information. They said the credit report also showed Mrs T had a County Court Judgment (CCJ) against her but this was dated 14 months before her application.

Moneybarn added that they'd checked Mrs T's income by reviewing the payslips she'd provided and calculated a maximum monthly repayment of around £330 to allow for Mrs T's non-discretionary expenditure. That led to them decide that the actual monthly repayment of £239.27 was affordable for Mrs T.

Mrs T wasn't happy with Moneybarn's response so brought her complaint to our service and one of our investigators looked into it. Her view was that Moneybarn had carried out proportionate checks and made a fair lending decision. Mrs T wasn't happy with our investigator's view – she said we hadn't commented on the fact that Moneybarn hadn't collected the car until a year after terminating the agreement, and even then she had to prompt them to do it.

Our investigator put this complaint point to Moneybarn but received no further comment or information. Reflecting on the information received from Mrs T, our investigator said she'd didn't think this had caused Mrs T any loss. Mrs T remained unhappy and asked for an ombudsman to look into her complaint – and it'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, and acknowledging it'll be disappointing for Mrs T, I'm not upholding her 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 carried out the following checks:

- reviewed Mrs T's credit file; and
- verified Mrs T's income by looking at her payslips.

Whether or not these checks were proportionate depends on various factors, including the size and length of the loan, the cost of credit, and what Moneybarn found.

Moneybarn haven't kept a copy of the credit file they looked at but they've told us it showed Mrs T had a CCJ from 14 months prior to the lending decision and a default from 25 months prior. They said there was no other adverse information on the credit report and Mrs T's borrowing levels were moderate.

Because Moneybarn's copy of Mrs T's credit report isn't available, I've looked at the credit report Mrs T provided. Because of the time that's passed this only gives an indication of Mrs T's credit status for the last twelve months prior to her application for this agreement. From what I've seen on the report, I don't think there were any other indicators that Mrs T might have been in financial difficulties at the time. The credit report suggests Mrs T didn't have significant debts. And the CCJ and default that Moneybarn noted were over a year before the lending decision – so I'm satisfied that Moneybarn didn't need to place significant weight on these. In addition, Moneybarn would have been aware of Mrs T's payment history on her previous agreement – although she'd missed one payment, she'd then made the remainder of the payments on time and then paid off her arrears.

As well as checking her credit file, Moneybarn verified Mrs T's net monthly income by looking at her most recent two payslips, and the average of the two amounts was £1,325. Moneybarn then took a view on whether this left Mrs T with enough income to cover her non-discretionary expenditure.

I'm satisfied these checks were reasonable and proportionate - while the length of the loan was significant and the cost of credit relatively high, the repayments were relatively low – less than 20% of Mrs T's income. There weren't any indicators from Mrs T's credit file that she was in financial difficulties at the time, and this credit agreement represented an increase of only around £40 per month when compared to her previous credit agreement with Moneybarn.

Did Moneybarn make a fair lending decision?

Moneybarn established that Mrs T had net monthly income of £1,325 per month. Subtracting the monthly repayments under the agreement meant she'd be left with around £1,085 per month to cover her credit commitments and non-discretionary expenditure.

The credit file showed Mrs T didn't have significant credit commitments so it would have been reasonable to expect most of this amount to be available for Mrs T's non-discretionary expenditure. At the time, Mrs T was married and living in private rented accommodation, with no dependents. I don't think it was unreasonable for Moneybarn to decide that £1,085 per month would be enough for her to live on and to make the repayments on the agreement in a sustainable way. It follows that I'm satisfied they made a fair lending decision.

Did Moneybarn act unfairly in any other way?

Mrs T has commented that she had children soon after this lending decision and that Moneybarn should have checked affordability on an annual basis. But there's no requirement in CONC for them to do this. The resulting change in Mrs T's income wasn't reasonably foreseeable for Moneybarn so I can't say they should have factored this into their lending decision.

Mrs T's also commented that Moneybarn didn't collect the car from her when they terminated the agreement. They only collected it when she contacted them almost a year later. I've looked at Moneybarn's system notes and it looks like the usual reminders and chasers weren't sent to Mrs T. I can see Moneybarn had arranged collection of the car in November 2021 but Mrs T called to dispute the arrears and told Moneybarn she wanted to keep the car. At this point the account was put on hold while the arrears were to be investigated and it seems this may have been what led to the collection being delayed.

However, although it appears the late collection was likely down to an error by Moneybarn, I can't say this has caused Mrs T any loss. On the contrary, she had use of the car for an additional twelve months. Mrs T has queried the balance outstanding and referenced the terms and conditions in relation to voluntary termination – but in this instance the termination was not voluntary. That means Moneybarn are entitled to all sums due under the agreement as set out section 9 of the terms and conditions. I appreciate the vehicle may have been sold for a higher amount in November 2021 than in November 2022 and that may have meant the sum now outstanding would be lower. But on balance it's highly unlikely any reduction in outstanding amount would have outweighed the benefit Mrs T had in keeping the car for those twelve months. So I don't think she lost out as a result of the delay.

In summary I'm satisfied Moneybarn haven't acted unfairly. It follows that I'm not upholding Mrs T's complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs T to accept or reject my decision before 8 November 2023.

Clare King
Ombudsman