

The complaint

Mr C is complaining about Moneybarn No.1 Limited. He says they shouldn't have lent to him as the loan was unaffordable.

What happened

In July 2019, Mr C took out a conditional sale agreement with Moneybarn, to finance the purchase of a car. He paid a deposit of £400 and borrowed £5,095 - the cash price of the vehicle was £5,495. The agreement required him to make 35 monthly repayments of £251.85. Mr C made his payments on time until April 2020, when he was granted a six-month payment holiday. In the months that followed he made payments mostly on time, by card, and he settled the loan in full in October 2022.

In the same month, Mr C complained to Moneybarn, saying they were irresponsible in lending to him. He wanted them to refund all interest and charges associated with the loan and remove the adverse marker from his credit file.

In response to Mr C's complaint, Moneybarn said they'd done a full credit search with one of the credit reference agencies (CRAs). They said this showed Mr C had defaulted on some previous borrowing but the most recent of these was 17 months prior to his application. They said the credit report showed some County Court Judgments (CCJs) but the most recent of these was 7 months prior to his application.

Moneybarn added that they'd checked Mr C's income using one of the CRA tools. This check uses information from a customer's current account to confirm regular income. They said they verified Mr C's monthly income of £1,800 and determined that this was in line with his stated occupation. They also used Office for National Statistics (ONS) data to estimate Mr C's non-discretionary expenditure and calculated he had net disposable income of around £500 each month.

Moneybarn also said Mr C had made most of his payments on time and they'd seen that his financial situation had improved between July 2019 and January 2023 when he made a further application for vehicle finance. So they didn't think their agreement had caused any detriment to Mr C's financial circumstances.

Mr C wasn't happy with Moneybarn's response so brought his complaint to our service. He said the loan was unaffordable, especially as he had a poor credit score CCJs at the time of the agreement. He said he'd had to borrow from family and friends, as well as payday lenders, in order to make the repayments.

One of our investigators looked into the complaint. His view was that Moneybarn's checks hadn't been proportionate – but if they had, Moneybarn would have been able to fairly decide that the repayment was affordable and it was reasonable to lend to Mr C.

Mr C rejected our investigator's view, saying he didn't agree with our investigator's calculations of his disposable income – he said there was no way he had £500 per month to spare and told us the only reason he'd been able to settle the agreement was because he'd

inherited some money. Because our investigator and Mr M couldn't reach an agreement, 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.

Having done so, and acknowledging it'll be disappointing for Mr C, I'm not upholding his 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 Mr C's credit file;
- verified his income using a CRA tool; and
- used ONS data to calculate his monthly net disposable income at £500 before making repayments on the agreement.

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 Mr C had nine outstanding defaults at the time but the most recent of these was 17 months old. They've also said he had two CCJs, the most recent of which was seven months old. Looking at Mr C's copy of his credit report, I can see the CCJs were recorded in September 2018 and December 2018, and the most recent default was in February 2018.

Mr C's report shows he had only one active credit balance at the time of the lending, of around £150. But, from what Moneybarn have told us, his default balances totalled over £5,000 and weren't reducing.

As well as checking Mr C's credit file, Moneybarn used a CRA tool to verify his income and ONS data to estimate his expenditure. CONC allows the use of statistical data, but only if there's no reasonable cause to suspect that the customer's non-discretionary expenditure is significantly higher than that described in the data. Mr C's CCJs were recent and his default balances weren't reducing – I'm satisfied this is reasonable cause to suspect that the statistical data which suggested Mr C had disposable income of £500 per month might not be applicable.

On balance, I'm not satisfied Moneybarn carried out proportionate checks when assessing Mr M's application for finance.

What would Moneybarn have found if they had done proportionate checks?

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

I've looked at statements for Mr C's main bank account for the three months leading up to his 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 Mr C's income and expenditure at the time the lending decision was made.

The bank statements show that Mr C's income from employment was regular and roughly the same amount each month. On average his net monthly income across April to June 2019 was £1,643. He had no other sources of income, with only occasional refunds or transfers crediting his account with small amounts.

Looking at the monthly average of regular payments from Mr C's bank statements, these amounted to around £674 on rent and household bills, £45 for road tax on two vehicles, £19 for bank charges, and £67 on payments to creditors. He spent on average £156 per month on fuel, £100 on groceries and £18 on a phone. I can't see any other regular, committed or non-discretionary expenditure on his bank statements, though there were several cash withdrawals which Mr C may have used for non-discretionary items.

In summary, I can see Mr C had committed or non-discretionary expenditure at the time of around £1,079. Adding on the monthly repayments for this agreement of £252 takes his expenditure to £1,331. Deducting this from Mr C's income of £1,643 left him with around £312 per month to cover discretionary spending.

I'm aware Mr C's said he didn't have much spare each month. But I can see his bank account had a healthy positive balance for the three months prior to the loan, and he was spending money on discretionary items such as eating out, sports and clothing. This supports my analysis that he did have a reasonable amount of disposable income.

In conclusion, if Moneybarn had done proportionate checks, I'm satisfied they'd have determined that Mr C's income significantly outweighed his non-discretionary expenditure and could have fairly decided the lending was affordable. So I can't uphold Mr C's complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 23 November 2023.

Clare King
Ombudsman