DRN-4402291

The complaint

Miss C is complaining about Moneybarn No.1 Limited (Moneybarn). She says they were irresponsible in lending to her as the loan was unaffordable.

What happened

In September 2020, Miss C took out a conditional sale agreement with Moneybarn to finance the purchase of a car. She paid a deposit of £250 and borrowed £8,445 - the cash price of the vehicle was £8,695. The agreement required her to make 59 monthly repayments of £280.80. She made all her repayments on time until August 2022 when a direct debit bounced – and her payments became more sporadic after this.

In September 2022, Miss C complained to Moneybarn, saying they shouldn't have lent to her because the loan was unaffordable. She said Moneybarn should have done more checks and that she was using payday loans at the time.

In their response, Moneybarn said they had carried out enough checks before deciding to lend to Miss C. They said they'd checked her credit report and used Miss C's payslips to verify her stated monthly income of £1,280. They added that they'd used Office for National Statistics (ONS) data to estimate Miss C's non-discretionary expenditure and therefore her disposable income. Using those figures they'd determined the agreement was affordable for Miss C.

One of our investigators then looked into the complaint but didn't uphold it, saying that he thought Moneybarn had completed proportionate checks and made a fair lending decision. He added that as Miss C was living with her parents Moneybarn didn't need to account for many non-discretionary costs.

Miss C disagreed. She said she wasn't living with her parents at the time, she was renting and had three children. 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 C's complaint for broadly the same reasons as our investigator - I'll explain why 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 conducted a full credit search and checked Miss C's income to her payslips. They also said they'd used ONS data to estimate Miss C's expenditure. Moneybarn noted Miss C was living with her parents so they didn't include any expenditure for housing, but their expenditure estimates included council tax, utilities and other basic living costs.

Whether or not these checks were proportionate depends on various factors, including the term of the loan, cost of credit, and overall amount repayable – as well as what Moneybarn found during their checks. Given the loan was for five years, at a high interest rate, and Miss C would need to pay back almost £17,000 over that time, the checks needed to be thorough.

Moneybarn haven't sent us a copy of the credit report they used. They've told us it showed Miss C had three defaults, with a total balance across the three of around £9,000. And they said it showed Miss C had active credit balances totalling around £8,000 with monthly repayments totalling around £316. Moneybarn noted that Miss C's most recent default was 17 months prior to the lending decision, and said there weren't any other indicators that Miss C might be in financial difficulties at the time.

CONC isn't specific about exactly what checks would be proportionate. But it does say that businesses are entitled to rely on statistical data unless they have reason to believe the statistical data might not be appropriate in the circumstances. In Miss C's case, the finance application said she was living with her parents. So Moneybarn's decision not to include housing costs in their income and expenditure assessment seems reasonable. I haven't seen anything else in the information available to Moneybarn at the time that suggests it wasn't appropriate for them to rely on statistical data for estimates of Miss C's other non-discretionary expenditure.

I appreciate Miss C's told us she was actually living independently rather than with her parents at the time of the loan. But Moneybarn have sent us a copy of the application they received and this clearly states: "Living with Parents", so I can't say they should have been aware Miss C was living independently.

Because Moneybarn didn't send us a copy of the credit report they used we asked Miss C to provide us with a copy. Unfortunately she hasn't done so, so I've seen nothing to suggest there were any indicators in Miss C's credit report that Miss C might be struggling financially and that statistical data might not be representative.

In summary, Moneybarn checked Miss C's income to payslips and used ONS data and data from her credit report to calculate her monthly disposable income. They calculated a figure of nearly £500 from which she would need to pay around £280 per month for the vehicle. I haven't seen anything to suggest the checks they carried out weren't proportionate in the circumstances.

Did Moneybarn make a fair lending decision?

Having concluded that Moneybarn carried out proportionate checks, I need to decide whether they made a fair lending decision.

Looking at Miss C's income, Moneybarn had eight weekly payslips. Calculating a monthly average from these payslips gives an income figure of around £1,300 – a little higher than the figure Moneybarn quoted.

When looking at her expenditure, as I've explained above, Moneybarn didn't include a figure for housing costs and used estimates based on statistical data for her other costs of living, as well as basing her monthly credit repayments on the data in Miss C's credit file. I'm satisfied this was a fair approach given the information Moneybarn had available to them at the time.

Using Moneybarn's calculations would have allowed Miss C around £220 disposable income per month after making her repayments under this agreement. On that basis I can't say Moneybarn acted unfairly in deciding to lend to Miss C.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 2 January 2024.

Clare King
Ombudsman