

The complaint

Miss M is complaining about Moneybarn No.1 Limited (Moneybarn). She says they were irresponsible in lending to her as the loan was unaffordable. A representative has brought the complaint on Miss M's behalf but for ease I've written as if we've dealt directly with Miss M.

What happened

In October 2019, Miss M took out a conditional sale agreement with Moneybarn to finance the purchase of a car. She paid a deposit of £635 and borrowed £16,365 - the cash price of the vehicle was £17,000. The agreement required her to make 59 monthly repayments of £536.52 – the total amount repayable was over £32,000. Miss M's direct debits bounced frequently and her payment history was sporadic. Moneybarn issued a default notice in August 2021 and Miss M chose to return the car and terminate the agreement. She was left with a balance of over £8,000 to pay.

In March 2023, Miss M complained to Moneybarn, saying they shouldn't have lent to her because the loan was unaffordable.

In their response to Miss M, Moneybarn said they had carried out enough checks before deciding to lend to Miss M. They said they'd checked her credit report and used one of the credit reference agencies (CRAs) to verify her stated monthly income of £2,354. They added that Miss M's existing borrowing levels and monthly credit commitments appeared affordable and her previous County Court Judgement (CCJ) and defaults weren't recent – they said the most recent default was 27 months prior to her application. In summary they said the finance application was assessed fairly and the amount offered was affordable.

Miss M was unhappy with Moneybarn's response and brought her complaint to our service. At this stage, Moneybarn added that they'd used Office for National Statistics (ONS) data to estimate Miss M's non-discretionary expenditure and calculated that Miss M had disposable income of around £840 per month from which to make the monthly repayments required under the agreement.

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.

Miss M disagreed. She said in view of the CCJ and the number of defaulted accounts, as well as the size and term of the lending, Moneybarn ought to have done more checks. 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 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 M's income using one of the CRAs. They also said they'd used ONS data to estimate Miss M's expenditure.

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 M would need to pay back over £32,000 over that time, the checks needed to be thorough.

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.

Moneybarn haven't sent us a copy of the credit report they used. They've told us it showed Miss M had three defaults, with a total balance across the three of around £1,200. And they said the balance on her CCJ was around £800. They also said it showed Miss M had active credit balances totalling around £2,640 with monthly repayments totalling around £280. Moneybarn noted that Miss M's most recent default was 27 months prior to the lending decision. From what they've said, there weren't any indicators that Miss M might be in financial difficulties at the time.

Because Moneybarn haven't been able to share the credit report they looked at, I've looked at Miss M's copy of her credit report to check there weren't any other indicators that the statistical data might not be relevant to Miss M. Although this was produced in 2023 it still gives an indication of Miss M's credit status at the time of her application. Having done so, I couldn't see anything that contradicts what Moneybarn said they'd seen – there's no sign that Miss M missed any payments to creditors in the months before the lending decision or any other indicators that she might be struggling financially.

In Miss M's case, the statistical data suggested Miss M had significant disposable income. And I don't think any of the information Moneybarn had available to them suggested this wasn't the case.

In summary, Moneybarn checked Miss M's income using CRA data and used ONS data and data from her credit report to calculate her monthly disposable income. CONC allows a lender to rely on this statistical data as long as they don't have reasonable cause to suspect the data doesn't apply. Moneybarn calculated a figure of nearly £850 from which she would need to pay around £540 per month for the vehicle. So 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.

Moneybarn verified Miss M's income of £2,354 per month and estimated her monthly non-discretionary expenditure at £1,165 using ONS data. I've seen nothing unusual in these estimates and I'm satisfied they're reasonable. Moneybarn said they used Miss M's credit report to estimate the amount she'd need to pay to creditors each month, and having looked at her credit report I haven't seen any reason to think her payments to creditors would be higher than the £280 per month Moneybarn calculated. Moneybarn added a buffer of £65 per month to allow for differences between the ONS data and Miss M's actual expenditure, and calculated that her total non-discretionary expenditure was around £1,510 per month. Deducting that from her income figure of £2,354 gave them a net disposable income figure of around £845 per month. So I can't say Moneybarn acted unfairly or unreasonably in deciding the monthly repayments of £540 were affordable for Miss M.

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 3 January 2024.

Clare King
Ombudsman