DRN-4439061

The complaint

Mr M is complaining about Moneybarn No.1 Limited. He says they shouldn't have lent to him as the loan was unaffordable. A representative has brought the complaint on Mr M's behalf but for ease I've written as if we've dealt directly with Mr M.

What happened

In November 2020, Mr M took out a conditional sale agreement with Moneybarn, to finance the purchase of a car. He paid a deposit of £500 and borrowed £10,799 - the cash price of the vehicle was £11,299. The agreement required him to make 59 monthly repayments of £379.18. Mr M first missed a payment in December 2022 when a direct debit bounced, and his payments have been sporadic since then.

In January 2023, Mr M complained to Moneybarn, saying they were irresponsible in lending to him. He wanted them to refund all interest and charges.

In response to Mr M's complaint, Moneybarn said they'd done a full credit search with one of the credit reference agencies (CRAs). They said this showed Mr M had a previous County Court Judgment (CCJ) but that this was 56 months prior to his application. They said it showed no defaults or insolvency information and low existing borrowing levels.

Moneybarn added that they'd checked Mr M'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 M's monthly income of £1,600 and determined that this was in line with his stated employment as a delivery driver.

Moneybarn said they checked Mr M's credit commitments using the CRA and calculated his non-discretionary expenditure using Office for National Statistics (ONS) data. On that basis they decided he had disposable income of £592.40 each month and so the agreement was affordable.

Mr M wasn't happy with Moneybarn's response so brought his complaint to our service and 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 that it was reasonable to lend to Mr M.

Mr M rejected our investigator's view, saying that the amount of money Moneybarn had calculated for discretionary income (£213) wasn't enough. And he said he had a recent CCJ at the time of his application and was primarily dependent on Universal Credit for his income, as well as regularly using high-cost lenders. He asked for an ombudsman to review the matter – 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 Mr M, 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 M's credit file;
- verified his income of £1,600 using a CRA tool; and
- calculated his monthly non-discretionary expenditure at £965 using ONS data.

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 said it showed Mr M had no outstanding defaults and one CCJ which was nearly 5 years old. Because Moneybarn's copy of Mr M's credit report isn't available, I've looked at the credit report Mr M provided to see what else Moneybarn might have been aware of.

Mr M's credit report shows a CCJ registered in March 2019 – 20 months before his application for this finance. Mr M's copy of the credit report doesn't show anything else of any significance – I can't see any other indicators that Mr M might have been in any financial difficulties at the time of his application to Moneybarn. I'm aware Mr M's said he was using high-cost credit in the months leading up to this loan, but there's no evidence of this on his credit report, so I can't say Moneybarn should have been aware of this.

Moneybarn have provided no information about the CRA tool they say they used to check Mr M's income. And I can't see that they made any other efforts to understand what Mr M's income would be. CONC 5.2A.15R requires a firm to take reasonable steps to determine the amount or make an estimate of the customer's current income (unless they can demonstrate that it's obvious that the customer is able to make repayments). Moneybarn haven't demonstrated that it was obvious that Mr M would be able to make repayments. And they haven't demonstrated that they took reasonable steps to determine the amount of Mr M's income.

As well as checking Mr M's credit file and using the CRA tool to verify his income, Moneybarn say they used ONS data to estimate his expenditure. CONC allows the use of statistical data, unless there is reasonable cause to suspect that a customer's non-discretionary expenditure is higher than that described in the data. At the time of the lending decision, Mr M's most recent CCJ was nearly two years ago. And I haven't seen any other indicators that Mr M's non-discretionary expenditure would be higher than the average. But Moneybarn haven't provided any detail of what the ONS data showed or any other evidence that they undertook the check.

Mr M's loan required him to make repayments of nearly 25% of his net monthly income for five years so the checks needed to be thorough. On balance, I've not seen enough evidence to be 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 M'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 M'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 M's income and expenditure at the time the lending decision was made.

The bank statements show Mr M's income was inconsistent. He was receiving benefits of just over £1,000 each month but had other income on top of this - £1,000 in August 2020, £275 in September and £689 in October. Looking at the months that followed, his income increased as he appears to have started to work more consistently. Moneybarn assessed Mr M's income as £1,600 and I'm satisfied they'd have reasonably been able to assess his net monthly income as £1,600 if they'd done proportionate checks.

Looking at regular payments from Mr M's bank statements doesn't provide much information about his non-discretionary expenditure. He was making payments of around £120 per month for TV, internet and mobile services and around £220 for existing debts. It looks like his rent was around £300 per month and he was spending small ad-hoc amounts on fuel and food. But Mr M transferred the majority of his income to his wife – it seems likely that she then paid Mr M's other costs of living. When Mr M raised his complaint, he said his expenditure at the time was £400 on rent and £600 on other commitments. And when Moneybarn used ONS figures, they thought Mr M's non-discretionary expenditure would have been in the region of £1,000. Taking all this together, if Moneybarn had done proportionate checks, I'm satisfied they'd still have been able to have assessed Mr M's non-discretionary expenditure as £1,000.

Deducting this £1,000 and the monthly payments of £380 from Mr M's net monthly income of £1,600 suggests he had around £220 left over for discretionary and emergency expenditure. I appreciate Mr M's said this isn't enough – but he's not given any particular reasons for this. CONC only requires a business to assess a customer's income and non-discretionary expenditure and to determine whether making the repayments under the loan would likely have a significant adverse effect on the customer's financial situation - it doesn't require the business to factor in discretionary expenditure. I'm satisfied £220 per month is enough to cover emergencies.

In summary, I've seen limited evidence of Mr M's financial commitments and non-discretionary expenditure and I'm satisfied that if Moneybarn had done proportionate checks they could have reasonably arrived at the same outcome and decided the loan was affordable for Mr M. So I'm not upholding the complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 14 December 2023.

Clare King
Ombudsman