DRN-4520047

Financial Ombudsman Service

The complaint

Mr D, who is represented by a third party, complains that Moneybarn No. 1 Limited ("Moneybarn") irresponsibly granted him a conditional sale agreement he couldn't afford to repay.

What happened

In January 2019 Mr D acquired a used car financed by a conditional sale agreement from Moneybarn. Under the terms of the agreement Mr D was required to make 59 monthly repayments of £180.58. The total repayable under the agreement was £10,654.22. The purchase price of the car was £6,995.00.

Mr D settled his agreement in full in October 2022.

Mr D says that Moneybarn didn't complete adequate affordability checks. He says if it had, it would have seen the agreement wasn't affordable.

Moneybarn didn't agree. It said that it carried out a thorough assessment which included a search of Mr D's credit file, checking his income and allowing for his regular monthly outgoings.

Our investigator looked into the complaint and didn't recommend it be upheld. She thought Moneybarn didn't act unfairly or unreasonably by approving the finance agreement.

Mr D and those representing him didn't agree and so the complaint has been passed to me for a final 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.

Moneybarn will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don't consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

Before granting the finance, I've seen that Moneybarn completed a credit check to understand how Mr D had been managing his existing and previous finance and credit arrangements. It also took steps to verify Mr D's declared monthly income of £2,158 using bank account information provided to a credit reference agency. The checks also showed that Mr D had around £13,600 in current live debt. Based on that, and using statistical data, Moneybarn estimated that after paying for his monthly outgoings, including debt and non-debt commitments, Mr D would have a monthly disposable income of around £750 before deducting his monthly repayment to Moneybarn.

I've also seen that the credit check showed Mr D had some defaulted borrowing in the past. The most recent of this was from 46 months previously. The total defaulted amount was initially around £12,500 but Mr D had since been taking steps to reduce it down.

The credit check also suggested that Mr D had some arrears with credit payment in the previous three months. Although I don't have full details about the level of these arrears, I agree with our investigator that this ought to have indicated to Moneybarn that Mr D could be struggling financially. It therefore would have been proportionate for Moneybarn to have got a more thorough understanding of Mr D's financial circumstances before lending. I say this especially given that Mr D was taking on a significant financial commitment, requiring him to meet regular payments for a long period.

That means I've next thought about what a better check might have shown Moneybarn. I've kept in mind that Moneybarn doesn't expect its potential customers to have unblemished credit histories when they apply so this is something I'd expect Moneybarn to be particularly aware of.

I can't be certain what Mr D would have told Moneybarn had it asked for details of his credit situation and regular expenditure. I don't think it necessarily had to request bank statements in order to do this. But in the absence of anything else, I've placed significant weight on the information contained in the bank statements Mr D had provided in order to get an indication of what would most likely have been disclosed.

I've reviewed three months of bank statements leading up to the finance application. I've noted that Mr D was making regular use of his overdraft, which had a limit of just over £400. Overdraft usage is something that can sometimes be an indication of financial difficulty when looking into a consumer's financial situation, especially if the consumer uses it heavily and the amount of overdraft debt is high or increasing. I don't think though, having looked at the overall pattern of Mr D's income alongside his day-to-day spending, that there was enough to suggest that his financial circumstances were at risk of deteriorating. I also note that he wasn't being charged for his overdraft. His income was broadly consistent with what Moneybarn had found as part of its checks. And overall Mr D appeared able to satisfy his existing household outgoings and credit commitments. His income looked to be around £1,200 per month which is lower than the £1,400 that Moneybarn had calculated at the time of the agreement. So I agree that he would most likely be left with £750-£950 of disposable income each month, out of which he would be able to meet the payment required under the agreement and still be left with disposable income.

I therefore agree with our investigator that Mr D was likely to have been left with enough disposable income to cover his monthly repayments to Moneybarn. That means I'm not able to fairly say that the agreement was unaffordable for Mr D. It follows that I don't think Moneybarn acted unfairly when approving his finance application.

Finally, I would like to add that I am sorry to hear of the difficult circumstances Mr D has told us about relating to his financial situation. I do hope things have improved for him. But from the perspective of this decision, I nevertheless don't think that Moneybarn acted unfairly in providing him with this agreement.
I am sorry to have to disappoint Mr D on this occasion.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr D to accept or reject my decision before 25 April 2024.
Michael Goldberg
Ombudsman