

The complaint

Mr L 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 L's behalf but for ease I've written as if we've dealt directly with Mr L.

What happened

In September 2019, Mr L took out a conditional sale agreement with Moneybarn, to finance the purchase of a car. He paid a deposit of £200 and borrowed £7,590 - the cash price of the vehicle was £7,790. The agreement required him to make 59 monthly repayments of £241.05. Mr L first missed a payment in May 2021 when a direct debit bounced, but he's made the majority of his payments on time.

In July 2023, Mr L complained to Moneybarn, saying they'd been irresponsible in lending to him. He wanted them to refund all interest and charges.

In response to Mr L's complaint, Moneybarn said they'd done a full credit search with one of the credit reference agencies (CRAs). They said this showed Mr L had previous defaults but that the most recent of these was 5 months prior to his application. They said it showed his existing borrowing levels were affordable and he was making contributions towards the defaulted amounts.

Moneybarn added that they'd checked Mr L'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 L's monthly income of £1,400 and determined that this was in line with his stated employment as a delivery driver.

Moneybarn said they checked Mr L's credit commitments using the CRA and calculated his non-discretionary expenditure as around £700 per month using Office for National Statistics (ONS) data. On that basis they decided the agreement was affordable.

Mr L 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 he didn't have enough information to say that Moneybarn should have realised the agreement was unaffordable – so he didn't uphold the complaint.

Mr L rejected our investigator's view, saying that it was clear from the state of his credit file that the agreement wasn't affordable. He added that he'd lost his job around three years ago which had meant he struggled even more. 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 L, 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 L's credit file;
- verified his income of £1,400 using a CRA tool; and
- calculated his monthly non-discretionary expenditure at £700 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. This agreement required Mr L to pay Moneybarn over £14,000, over a period of five years, so my starting point is that the checks should have been thorough.

Moneybarn haven't kept a copy of the credit file they looked at, but they said it showed Mr L had defaults, the most recent of which was 5 months old. Because Moneybarn's copy of Mr L's credit report isn't available, I've looked at the credit report Mr L provided to see what Moneybarn might have been aware of.

Mr L's credit report shows he had arrangements to pay on three different accounts over the winter of 2018 – 2019 but on each account the position improved again over the course of 2019. It shows three defaults – dated November 2018, February 2019, and April 2019, with the total of defaulted balances being just under £4,000.

On balance, the information contained in Mr L's credit report suggests his finances weren't stable and he'd recently been in financial difficulties. That means it wasn't enough for Moneybarn to rely on statistical data and proportionate checks would have meant finding out more about Mr L's income and expenditure.

Concluding that Moneybarn didn't carry out proportionate checks isn't enough to uphold Mr L's complaint – I also have to consider whether Moneybarn could have fairly lent to Mr L if they had done proportionate checks.

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

A poor credit history doesn't automatically mean Moneybarn shouldn't have lent to Mr L. Instead, a proportionate check would have involved Moneybarn finding out more about Mr L'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 L'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 L's income and expenditure at the time the lending decision was made.

The bank statements show Mr L's income was a little inconsistent. Across the three months I looked at, his net employment income varied between £1,451 and £1,757. Moneybarn

assessed Mr L's income as £1,400 and I'm satisfied they'd also have reasonably been able to assess his net monthly income as at least £1,400 if they'd done proportionate checks.

Looking at regular payments from Mr L's bank statements doesn't provide much information about his non-discretionary expenditure. He was making monthly payments of around £100 per month for motor and life insurance, £59 for memberships, around £250 for food, fuel and road tax, and around £30 for existing debts. The bank statements show he also withdrew around £500 in cash each month and transferred a similar amount to a joint account each month. I've asked Mr L about these amounts and he's said he paid rent of around £370 per month in cash and the transfers were for household bills – council tax (£90), water (£40), energy (£200) and other shopping.

Mr L hasn't told us to what extent his partner contributed to the household bills – it's clear the amounts he's quoted are the totals. And the figures are notably higher than the ONS equivalents, which suggest council tax of £50 and utilities of £125 for example. It's difficult in hindsight to know what Mr L would have told Moneybarn if they'd asked him about his committed expenditure at the time.

If Moneybarn had used the figures I've set out above, they'd have calculated Mr L's disposable income as being around £260 – from which to make the payments under the agreement of £241. Whilst I'm aware this wouldn't have left Mr L with much to cover discretionary and emergency expenditure, it's clear his wages were often higher than the £1,400 used here – and it seems likely he was sharing living costs with a partner – so I think this is likely a "worst-case" scenario.

In summary, I've seen limited evidence of Mr L'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 L. So I'm not upholding the complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 14 March 2024.

Clare King
Ombudsman