Financial Ombudsman Service

The complaint

Ms S 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 October 2020, Ms S took out a conditional sale agreement with Moneybarn to finance the purchase of a car. She paid a deposit of £440 and borrowed £9,550 - the cash price of the vehicle was £9,990. The agreement required Ms S to make 47 monthly repayments of £336.76.

In June 2023, Ms S complained to Moneybarn, saying they shouldn't have lent to her. She said they hadn't carried out sufficient checks when assessing affordability and hadn't taken into account her mental health and financial history.

In their response, Moneybarn said they'd carried out several checks before deciding to lend to Ms S. They said they'd checked her credit report and used a credit reference agency (CRA) to verify Ms S's stated monthly income of £1,800. They added that they'd estimated Ms S's non-discretionary expenditure and therefore her net disposable income. Using those figures they'd determined the agreement was affordable for Ms S.

One of our investigators then looked into the complaint but didn't uphold it. He said that although he thought Moneybarn hadn't done enough checks, they'd have likely still decided the agreement was affordable for Ms S if they had.

Ms S disagreed. She said if Moneybarn hadn't done enough checks that was enough to say they'd acted irresponsibly in lending to her. And she said not all her outgoings are visible on her bank statements and she didn't have the amount of disposable income our investigator had calculated. 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, and acknowledging it'll be very disappointing for Ms S, I'm not upholding her complaint for broadly the same reasons as our investigator - I'll explain more 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 Ms S's income using a CRA. They also said they'd used Office for National Statistics (ONS) data to estimate Ms S'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 four years, at a high interest rate, and Ms S would need to pay back over £16,000 over that time, the checks needed to be thorough.

Moneybarn haven't sent us a copy of the credit report they used. They've said that Ms S's most recent default was 21 months before her application and her existing debts at the time of the application were relatively low and appeared affordable.

CONC allows a business to use statistical data when assessing the affordability of an agreement for a consumer. So I can't say Moneybarn shouldn't have relied on the ONS data. But a firm can only rely on the estimates when there's no evidence to suggest this would be inappropriate for that customer.

Without a full copy of the credit report, or evidence of the income check Moneybarn said they carried out, I can't be sure that the checks were proportionate – so I'll look at what would likely have happened if Moneybarn had done proportionate checks.

If Moneybarn had done proportionate checks, what would they have found?

Proportionate checks would have involved Moneybarn finding out more about Ms S's income and expenditure to determine whether she'd be able to make the repayments in a sustainable way.

I've looked at statements for Ms S's bank accounts for the three months leading up to her application to Moneybarn. And I've taken into consideration what Ms S has told us about her income and expenditure.

Having done so, I can see Ms S had regular income from benefits, her part-time employment, and child maintenance payments from a former partner. On average her regular income totalled around £1,850. So I think Moneybarn could reasonably have kept the £1,800 per month income figure they'd obtained from Ms S and verified using the CRA tool.

Turning to her expenditure, I can see from her statements that Ms S was paying around £300 per month for rent and rates. She was paying around £90 per month to existing creditors – the same amount as Moneybarn noted from her credit file. And she was spending around £350 per month on food and fuel, and around £65 per month on TV and phones. Ms S was paying around £200 per month in regular allowances to her children, and she was paying around £150 per month for childcare.

On top of this, Ms S was withdrawing around £250 per month in cash. She's told us this was mostly used for her energy bills and for additional childcare – so I think Moneybarn would have included roughly this amount in their income and expenditure assessment if they'd spoken to Ms S at the time.

Adding all of this expenditure together gives a figure of around £1,400 per month in regular expenditure. Ms S would then need to make payments of £337 under this agreement – which would leave her with at least £60 per month for emergencies and other discretionary items. Although this may not seem like a lot, I'm satisfied Moneybarn could have fairly decided to lend to Ms S on this basis as there were items of her expenditure (for example allowances paid to her children) that would usually be considered discretionary.

Ms S has told us she was borrowing money from family members to make ends meet – and I can see this, and the repayments, on her bank statements. But I've also seen significant levels of discretionary spending, for example on takeaways, clothes, and days out. So it's difficult to say Ms S was reliant on this informal borrowing for essential living costs.

On balance, if Moneybarn had done proportionate checks and obtained additional information about Ms S's income and expenditure, I'm satisfied they could have still fairly and reasonably decided to lend to Ms S. And on that basis I can't uphold Ms S's complaint – although Moneybarn may not have done proportionate checks, I can't say Ms S lost out as a result.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 19 March 2024.

Clare King
Ombudsman