

The complaint

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

What happened

In August 2019, Mr B took out a conditional sale agreement with Moneybarn, to finance the purchase of a car. He paid no deposit and borrowed £5,650 - the cash price of the vehicle. The agreement required him to make 59 monthly repayments of £187.34. Mr B's account shows he'd missed a couple of payments due to bounced direct debits but had made these up with additional card payments.

In March 2023, Mr B complained to Moneybarn, saying they'd been irresponsible in lending to him. He said he had multiple other credit commitments at the time of applying for the lending and was struggling to pay for his essentials. He wanted Moneybarn to refund all interest and charges.

In response to Mr B's complaint, Moneybarn said they'd done a full credit search with one of the credit reference agencies (CRAs). They said this showed Mr B had previous defaults but that the most recent of these was six 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 B'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 B's monthly income of £2,750 and determined that this was in line with his stated employment as a self-employed chef.

Moneybarn said they checked Mr B's credit commitments using the CRA and calculated his non-discretionary expenditure as around £1,000 per month using Office for National Statistics (ONS) data. On that basis they decided the agreement was affordable.

Mr B wasn't happy with Moneybarn's response so brought his complaint to our service and one of our investigators looked into it. His view was that Moneybarn's checks hadn't been proportionate – but he thought if they had done proportionate checks Moneybarn could have fairly decided the agreement was affordable. So he didn't uphold the complaint.

Mr B rejected our investigator's view, saying that the amount of disposable income our investigator had calculated (of around £155 per month) was insufficient for unexpected expenses. 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 B, I'm not upholding his 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 carried out the following checks:

- reviewed Mr B's credit file;
- verified his monthly income of £2,750 using a CRA tool; and
- calculated his monthly non-discretionary expenditure at £1,100 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 B to pay Moneybarn over £11,000, 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 B had defaults, the most recent of which was six months old and had an outstanding balance of £3,800.

On balance, the information contained in Mr B's credit report suggests 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 B's income and expenditure.

Concluding that Moneybarn didn't carry out proportionate checks isn't enough for me to uphold Mr B's complaint – I also have to consider whether Moneybarn could have fairly lent to Mr B 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 B. Instead, a proportionate check would have involved Moneybarn finding out more about Mr B'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 B's bank account for the two 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 B's income and expenditure at the time the lending decision was made.

The bank statements show Mr B's income was a little inconsistent. Across the two months I looked at, his average monthly income from his self-employment and benefits totalled around £2,500. Moneybarn verified Mr B's monthly income as £2,750 but I think more checks would likely have shown that was a bit high and a more appropriate figure would have been £2,500.

Looking at regular payments from Mr B's bank statements suggests Mr B was paying around £920 per month for rent, utilities and phone costs, around £400 for an existing hire purchase

agreement, fuel, road tax, and insurance, and spending around £400 per month on food and other essentials including some work expenses. He was also paying around £190 per month to creditors. So although it's difficult in hindsight to know what Mr B would have told Moneybarn if they'd asked him about his spending at the time I think Moneybarn could reasonably have estimated Mr B's committed and non-discretionary expenditure as around £1,910 per month.

If Moneybarn had used the figures I've set out above, they'd have calculated Mr B's monthly disposable income as being around £590 – from which to make the payments under the agreement of £187. This would have left Mr B with around £400 to cover emergency and discretionary spending. I'm aware this figure is significantly higher than the £155 suggested by our investigator. Our investigator used a more cautious figure for income and some slightly different assumptions around expenditure. Either way I'm satisfied Moneybarn could have fairly decided Mr B was left with enough disposable income for non-essential and emergency spending and therefore that the agreement was affordable for him. So I'm not upholding the complaint.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 16 April 2024.

Clare King
Ombudsman