

The complaint

Miss M 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, Miss M took out a conditional sale agreement with Moneybarn to finance the purchase of a car. She paid a deposit of £400 and borrowed £6,999 – the cash price of the vehicle was £7,399. The agreement required Miss M to make 59 monthly repayments of £277.49. Miss M initially made her payments on time but started to miss payments from around July 2021 onwards. She terminated the agreement voluntarily in July 2023.

In February 2023, Miss M complained to Moneybarn, saying they shouldn't have lent to her. She said they hadn't carried out sufficient checks when assessing affordability for her.

In their response, Moneybarn said they had carried out a credit search before lending to Miss M. They said they could see she'd previously defaulted on other accounts but the most recent of these was 13 months prior to her application and she was making contributions towards the sums owed. They also said they'd verified her monthly income using a Credit Reference Agency (CRA) and made reasonable considerations for her existing expenses, concluding that the repayments would be affordable for her. So they didn't uphold her complaint.

Miss M was unhappy so brought her complaint to our service, but our investigator also didn't uphold the complaint. He said he didn't think Moneybarn had done proportionate checks but if they had, they could have fairly decided to lend to Miss M.

Miss M disagreed. She said at the time of the loan she was living with family members but this was a temporary solution. 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 disappointing for Miss M, 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 Miss M's income using a CRA tool. They also said they estimated Miss M's monthly expenditure as around £900 including payments to creditors but it's not clear how they arrived at these figures.

Whether or not these checks were proportionate depends on various factors, including the size and length of the loan, and what Moneybarn found. The agreement required Miss M to pay Moneybarn nearly £17,000 over five years, so my starting point is that the checks needed to be thorough.

Moneybarn haven't sent us a copy of the credit report they used but they've sent a summary. This says Miss M had nine historical defaults, with a total outstanding balance on the defaulted accounts of £7,200. The most recent default was 13 months prior to Miss M's application but I think this was indicative that Miss M might still have been in some financial difficulties. On top of this, there's no indication of how Moneybarn arrived at their estimates. On that basis I'm not satisfied Moneybarn did proportionate checks - I think they needed to take additional steps to understand Miss M's expenditure.

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

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

I've looked at Miss M's bank statements for the three months leading up to her application to Moneybarn. I'm not saying needed to obtain bank statements as part of their lending checks. But in the absence of other information from the time, bank statements provide a good indication of Miss M's financial circumstances at the time the lending decision was made.

The bank statements don't give much indication of Miss M's financial commitments. They suggest she was spending around £40 per month on phone, TV and internet costs, and around £90 per month on insurance and road tax. She was also spending around £260 per month on food and fuel, and paying around £170 per month to creditors. The rest of her spending appears to have been largely discretionary in nature. So, it looks like her non-discretionary and committed expenditure was around £560 per month at the time.

Miss M's also told us she was living with family members at the time having recently left an abusive relationship. She said she was paying rent of £225 per month but that was a temporary option, which she said she'd made clear at the time of buying the car.

I haven't seen any evidence of what Miss M said to Moneybarn when applying for finance. If she did tell them she was intending to move out and live on her own Moneybarn would have needed to include a reasonable estimate of her future expenditure in their affordability assessment. That would have needed to cover rent and bills, as well as the £560 per month set out above.

Miss M had income of £1,700 per month. Deducting the £560 existing expenditure and the £278 that she needed to pay Moneybarn each month would have left around £860 to cover rent and bills. I'm satisfied Moneybarn could have fairly concluded that would be enough and could therefore have fairly decided to lend to Miss M.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 18 April 2024.

Clare King
Ombudsman