DRN-4692495

The complaint

Miss C complains that Moneybarn No. 1 Limited trading as Moneybarn didn't carry out proper affordability checks before they agreed to lend to her.

What happened

In February 2020 Miss C acquired a car when she entered into a conditional sale agreement with Moneybarn. The cash price of the car was £5,895. Miss C made an advance payment of £400 and after interest and charges were applied the total amount repayable was £13,283.24. This was repayable over 60 monthly repayments of £218.36. Miss C said she struggled to meet the repayments as she was a student with an income of student finance and universal credit. She said if her financial situation had been correctly assessed it would have shown that she couldn't sustain the repayments. She complained to Moneybarn.

Moneybarn said Miss C on her application had said she was employed full time. They'd verified her monthly income to be £1,200 through a credit reference agency (CRA) check. Her credit file while it showed she'd previous financial difficulties these had been some time before the applied for lending. On the evidence they'd seen they assessed the lending to be affordable.

Miss C wasn't happy with Moneybarn's response and referred her complaint to us.

Our investigator said that Moneybarn should have checked further into Miss C's financial situation as she'd a history of struggling financially. But after checking Miss C's financially situation further said Moneybarn hadn't acted unfairly by agreeing to lend to Miss C as the lending was affordable.

Miss C didn't agree she said her income had been inflated as she'd been overpaid universal credit as her student finance hadn't been taken into account. If Moneybarn had assessed her income correctly they would have seen she couldn't afford the lending. Miss C asked for an ombudsman to decide.

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 I'm not upholding this complaint. I know this will be a disappointment for Miss C so I'll explain why.

I've considered the relevant rules, guidance, and good industry practice when someone complains about irresponsible and/or unaffordable lending. There are two overarching questions I need to consider when deciding what's fair and reasonable in all the circumstances of the complaint. These are:

1. Did Moneybarn complete reasonable and proportionate checks to satisfy themselves that Miss C would be able to repay the credit in a sustainable way?

a. if so, did Moneybarn make a fair lending decision?

b. if not, would reasonable and proportionate checks have shown that Miss C could sustainably repay the borrowing?

2. Did Moneybarn act unfairly or unreasonably in some other way?

Regulations in place at the time Moneybarn lent to Miss C required them to carry out a reasonable assessment of whether she could afford to repay the loan in a sustainable manner. This is sometimes referred to as an “affordability assessment” or “affordability check”.

The affordability checks should be “borrower focused”, meaning Moneybarn need to think about whether repaying the loan sustainably would cause difficulties or adverse consequences for Miss C In other words, it wasn’t enough for Moneybarn to think only about the likelihood that they would get their money back without considering the impact of repayment on Miss C herself.

There’s no set list for what reasonable and proportionate checks are. But I’d expect lenders to consider the specific circumstances of the loan application. What constitutes a proportionate affordability check will generally depend on several factors such as the specific circumstances of the borrower, their financial history, current situation and whether there are any indications of vulnerability or financial difficulty. And I’d expect a reasonable and proportionate check be more thorough:

- the lower a consumer’s income,
- the higher the amount due to be paid,
- the longer the term of the loan; and
- the greater the number and frequency of loans, and the longer the period of time during which a customer has been given loans.

So, I’ve considered whether Moneybarn in lending to Miss C had done enough in the checks they did.

Moneybarn said they’d checked Miss C’s income through the information given to a CRA by her current account provider as this showed her income over a reasonable period of time. Moneybarn said they assessed Miss C as having a monthly income of £1,200. And her credit file showed she had a commitment of £4. They’d used statistical data from the Office for National Statistics (ONS), and assessed Miss C’s outgoings for housing costs, council tax, utilities and vehicle cists to be £398.30, and for her basic living costs £128.92, In their assessment Moneybarn also included a ‘*buffer’* amount of £136.74. In total this amounted to £667.94. Leaving Miss C £532.06, factoring in the new lending of £218.06 this left Miss C with a disposable income of £314. Moneybarn haven’t kept a copy of the credit file they looked at, but they said it showed Miss C had previously defaulted six times with this being 30 months prior to the new lending. They also said her credit fie showed three county court judgements (CCJ’s) with the last 12 months prior to the lending. They said it showed Miss C had an outstanding default balance of £2,300. But as she’d low debt activity and her financial difficulties were historic; they decided the lending was affordable and that Miss C could sustain the repayments.

As the credit report seen by Moneybarn isn’t available, I’ve looked at the credit report Miss C provided to see what else Moneybarn might have been aware of. I can see that Miss C had a CCJ in March 2019. And that she'd defaulted on several accounts in 2016 and 2017. I can also see that Miss C had a media account that had been in arrears shortly before the lending, and she'd two accounts with a debt collector.

Considering Miss C's indebtedness was increasing by over £13,000 across a period of five years, she was on a relative low income, had previous financial difficulties and her credit report showed she was late in making repayments to an account. I don't think the checks Moneybarn did were proportionate and reasonable. I think they should have verified Miss C's actual financial situation to see if the lending was sustainable rather than a reliance on statistical data.

This doesn't automatically mean Moneybarn shouldn't have lent to Miss C as I need to consider whether these checks would have shown that the repayments were unaffordable for her – or in other words that she lost out because of Moneybarn's failure to complete proportionate checks. I can't be sure exactly what Moneybarn would have found out if they'd asked. In the absence of anything else, I think it would be reasonable to place significant weight on the information set out in Miss C's bank statements. And Miss C's testimony about her finances and employment status at the time of the lending.

I've looked at Miss C's bank statements for the three months prior to the lending and I can see she'd an income each month of around £1,000 for universal credit and had received her student loan payment totalling £4,379.54 in January 2020. Miss C's income over the three months inclusive of student finance, benefits and child maintenance payments was around £8,240, which would have given her an average monthly income of around £2750. But I think if Moneybarn had checked Miss C's bank statements I think they'd have sought further clarification about the student finance especially as they said Miss C on her application said she was in full time employment. And they would have also considered the impact student maintenance would have on Miss C's benefits. I can't know what Miss C would have told Moneybarn, had they asked but Miss C has provided us with her student finance statement which is dated September 2019. So, I think a fairer assessment of her income would have shown her income as being student finance of £1,104.50 a month, with a reduced amount of universal credit, child benefit and child maintenance payments, which I've assessed to be on average around £1,795 a month.

I've also considered Miss C's outgoings over the three months, while our investigator assessed this to be around £1,763, this included a payment made to Miss C's parent of £2,000 from her student finance payment. I don't consider this to be a non- discretionary expenditure but rather safeguarding her income for future months. But I've included other payments to Miss C's parent as she has said these were for other bills such as utilities, which I haven't seen any payments from her bank account to cover these. Overall, this meant Miss C's non-discretionary expenditure each month was around £1079. Which meant she'd a disposable income of £716, and after factoring in the new lending she'd £498 available for discretionary expenditure.

So, based on the evidence of Miss C's finances and her testimony, at the time of the lending I agree with our investigator that if Moneybarn had checked further I think they would have agreed to lend to Miss C as she'd enough disposable income to maintain the repayments.

Although I'm not upholding this complaint, I'd like to remind Moneybarn of their obligation to exercise forbearance if they intend to collect any outstanding balance remaining on the account and it's the case that Miss C is experiencing financial difficulty.

I appreciate my decision will disappoint Miss C but I hope she will take some reassurance that I've considered her representations in my the considerations.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 12 June 2024.

Anne Scarr
Ombudsman