

The complaint

Miss H, via a third party, complains that Moneybarn No. 1 Limited (“Moneybarn”) unfairly entered into a conditional sale agreement with her. She says that due to her personal and financial circumstances at the relevant time the agreement was unaffordable.

What happened

In February 2022 Miss H entered into a conditional sale agreement with Moneybarn for a used car costing £8,895. Under the terms of the agreement, everything else being equal, Miss H undertook to make 59 monthly repayments of £312.32 making a total repayable of £18,426.88 at an APR of 39.9%.

Miss H complained that the agreement was unaffordable and so should never have been provided to her. Moneybarn didn’t uphold the complaint. It said that the finance provided was assessed fairly and the amount offered was affordable.

Miss H’s complaint was considered by one of our investigators. They came to the view that Moneybarn hadn’t made an unfair lending decision. In other words, they didn’t uphold Miss H’s complaint.

Miss H disagreed with our investigator and so her complaint has been passed to me for review and decision.

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.

In this decision I’ve focussed on what I think are the key issues. Our rules allow me to do this and these rules reflect the informal nature of our service as a free alternative to the courts. If there’s something I’ve not mentioned, it isn’t because I’ve ignored it. I haven’t. I’m satisfied I don’t need to comment on every individual argument (including those submitted by Miss H in response to the investigator’s view) to be able to reach what I think is the right outcome. I will, however, refer to those crucial aspects which impact my decision.

I would also add I’ve not carried out a form of compliance check or sought to enforce the regulator’s rules. What I’ve done is looked at everything provided and decided whether Miss H has lost out due to Moneybarn failing to act fairly and reasonably in its dealings with her.

We’ve explained how we handle complaints about irresponsible and unaffordable lending on our website. And I’ve used this approach to help me decide Miss H’s complaint.

Having carefully thought about everything I’ve been provided with, I’m not upholding Miss H’s complaint. I’d like to explain why in a little more detail.

Moneybarn needed to make sure that it didn't lend irresponsibly. In practice, what this means is that Moneybarn needed to carry out proportionate checks to be able to understand whether Miss H could make her payments in a sustainable manner before agreeing to lend to her. And if the checks Moneybarn carried out weren't sufficient, I then need to consider what reasonable and proportionate checks are likely to have shown.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify that information – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low, the amount lent was high, or the information the lender had – such as a significantly impaired credit history – suggested the lender needed to know more about a prospective borrower's ability to repay.

Moneybarn says it agreed to this application after Miss H provided details of her monthly bank account credits, which it verified with a credit reference agency. It also says that it carried out a credit search on Miss H which showed that although she had a number of defaults, the most recent being 6 months old with payments against it being made, she had no court judgements or insolvency information recorded against her name and her monthly credit commitments appeared affordable.

In Moneybarn's view, taking everything into account, the monthly payments for this agreement were affordable.

On the other hand, Miss H says the agreement was unaffordable from the outset and this could and should have been apparent to Moneybarn.

I've thought about what Miss H and Moneybarn have said.

The first thing for me to say is that like the investigator I'm not persuaded that the checks Moneybarn carried out did go far enough. Given what the credit search carried out showed, the monthly payments, the term of the agreement and the total cost of the loan I think Moneybarn should have carried out further checks into Miss H's actual financial circumstances.

In these circumstances, I think that Moneybarn ought to have done more to ascertain Miss H's actual regular non-discretionary living costs. That said, I don't think that Moneybarn obtaining further information on Miss H's actual regular non-discretionary living costs would have made a difference to its decision to lend in this instance.

I say this because based on bank statements and other information provided by Miss H when her actual regular non-discretionary living expenses are added to her active credit commitments and deducted from the bank account credits she received she appears to have had enough left over to make the repayments to this agreement. And for the avoidance of doubt I can confirm that I'm in broad agreement with the figures quoted by the investigator in their view and subsequently in this respect. So I think that Moneybarn obtaining further information is likely to have led it to conclude that when Miss H's regular non-discretionary living expenses and existing credit commitments were deducted from her bank account credits, she did have the funds, at the time at least, to sustainably make the repayments due under this agreement.

So in summary I don't think that Moneybarn acted unfairly or unreasonably towards Miss H and I'm not upholding her complaint. I appreciate that this will be disappointing for Miss H, but I hope she'll understand the reasons for my decision and at least accept that her concerns have been listened to.

I note that on being advised her complaint would be passed to an ombudsman for review and decision she advised the investigator that she was never advised of the agreement APR, the monthly cost and how much of her payment each month would be in respect of capital and how much would be in respect of interest.

Now I accept I can't say for certain what was discussed between Miss H and the dealership before she agreed to purchase the car and before she agreed to finance that purchase by way of an agreement with Moneybarn. But I can see that Miss H signed the agreement and this clearly shows the monthly cost, the APR and the total sum repayable under it. So I don't think Moneybarn did anything wrong in this respect.

As to how each monthly payment is broken down – between capital and interest – this is something I'm satisfied didn't need to be explained to Miss H. However, and I appreciate this will be of little comfort, I've seen nothing wrong in how Moneybarn has apportioned each payment made by Miss H between capital and interest due and payable.

Finally, and for the sake of completeness, I would add that I make no finding on any complaint Miss H might have about Moneybarn's treatment of her when she fell into agreement arrears, or about the quality of the car she purchased. This is because I can't see that these complaints have ever been raised with Moneybarn. It's certainly the case that Moneybarn didn't address these complaints under its final response letter dated December 2023.

My final decision

My final decision is I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 29 May 2024.

Peter Cook
Ombudsman