

complaint

Mr B complains that Moneybarn No. 1 Limited was irresponsible in lending him money to buy a car.

background

In October 2015 Mr B took out a loan with Moneybarn to buy a second hand car. His previous car had fallen into disrepair and he needed transport in order to get to work. The loan was for £7,400 and the interest rate was 46.9% with monthly payments of £329.64. Mr B maintained payments until late 2017 when the car needed expensive repairs.

He says that he was put under pressure by the salesman and the broker as he needed to buy a car quickly. He says he told them his budget was £200 a month, but he was pushed to accept the loan with larger monthly repayments.

He says he was asked for payslips and proof of identity. Moneybarn says he was offered the option of sending either payslips or bank statements.

Mr B said he has been experiencing financial difficulties for a number of years and has a fairly poor credit rating. He had a County Court judgement (CCJ) against him some four years prior to taking out this loan and there is evidence of reliance on payday loans. On this basis, he doesn't think he should have been given the loan.

However, Moneybarn says it relied on the payslips and a check of his credit status when deciding to grant the loan and it rejected his complaint. The matter was referred to this service where it was considered by one of our investigators who recommended it be upheld.

She didn't think the CCJ was grounds for rejecting the application given it was some four years old and for a small amount. However, she noted Moneybarn had taken account of child benefit and tax credits paid exclusively to Mrs B and therefore felt that it should also have looked at household outgoings. She referred to Mr B's bank statements which demonstrated his difficult financial situation at the time the loan was taken out.

The investigator acknowledged that Moneybarn is a sub-prime lender and the majority of its customers have a lower than average credit rating, but she believed it had an obligation to carry out the relevant checks before lending to a customer. She didn't think it had.

Moneybarn said Mr B signed several documents including pre-contractual information which highlighted he should not enter into the agreement should he know of any reason why the agreement may not be affordable in the future. But she said this didn't remove the obligation for Moneybarn to ensure what they were lending Mr B was affordable.

She said Mr B should be put back in the position he would have been had he not taken out the agreement. To achieve that she said Moneybarn should:

- repay the deposit he paid
- pay the cost of the repairs he carried out (providing he provides proof of the repairs and the costs)
- repay interest charged
- repay any fees added to account
- Mr B would have to return the car

Moneybarn didn't agree and said there was no evidence that it had taken Mrs B's income into account in its affordability assessment of Mr B. It said its normal credit checks were completed to assess indebtedness and based on this, and the other evidence provided by Mr B, it considered that the agreement was affordable. Mr B was given the option to provide either bank statements or payslips and he opted to provide his payslips. It also felt it would be useful to see details of all Mr B's bank accounts even though it hadn't required sight of them at the time of the application.

Mr B agreed with the investigator's conclusions, but asked that all his payments be returned with interest, proven repair costs be refunded and any adverse history be removed from his credit file.

I issued provisional decision as follows:

I found myself in agreement with the investigator in that I considered Moneybarn carried out insufficient checks before lending to Mr B. However, I reached a different conclusion on the matter of redress.

I noted Moneybarn relied on payslips and a credit check. I appreciated that it offers loans to people with poorer than usual credit ratings, which is why I thought it should have carried a more detailed review of Mr B's financial status. I acknowledged that it offered Mr B the opportunity to send in his bank statements, but I didn't consider that placing the onus on the customer absolved Moneybarn from acting responsibly in giving proper consideration to whether the loan was affordable.

Knowing a customer's income only gives a very partial picture of a person's finances and without also having an understanding of their outgoings I struggled to see how a lender could say a loan was affordable. I hadn't seen Mr B's credit file or rating at the time the loan was granted, but I thought it clear he was struggling financially with borrowing from others including payday lenders. He was making payments of £1 to another lender which should of itself have triggered concerns had Moneybarn obtained the bank statements.

I said Mr B had given a detailed and credible explanation of the purchase and subsequent events. I was satisfied he said that he couldn't afford more than £200 a month, but he was offered a loan almost immediately that required repayments 65% greater than he sought. Quite simply, I didn't consider Moneybarn carried out adequate checks and it should put Mr B back in the position he would have been had he not been given the loan.

I noted he had use of the car and so I agreed he should remain responsible for the capital element of the payments he has made. Where I differed from the investigator is that I thought he should be paid interest at 8% simple on the money repaid to him and also Moneybarn should remove any adverse entries it made on his credit file. Mr B agreed, but asked that Moneybarn refund the money before he surrenders the car as he needs it to get to work.

Moneybarn said it had carried out a credit check on Mr B and made him a straight accept. It said the credit check assessed both his indebtedness and the outgoings shown on his credit file. It said it wasn't required to carry out a review of his full income and expenditure and so it shouldn't be penalised for not doing so.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I appreciate that Moneybarn's system made Mr B a straight accept without further questions, but that of itself doesn't mean it was reasonable to make him the loan. As I explained in my provisional decision I regarded Mr B's explanation of what happened to be credible. I believe he was offered and pressurised into taking out a larger loan than he wanted. It is clear from the evidence this service has obtained that it was unaffordable.

While Moneybarn may not have been obligated to make a fuller check of his income and expenditure had it done so this would have made it clear that the loan was more than Mr B could afford. Even a simple check of his bank account would have given it cause for concern. I don't think it right that Mr B should be penalised by being encouraged to borrow more he wanted. Therefore my view remains unchanged.

I appreciate Mr B's request that he be allowed to keep the car for a short time to allow him to find a replacement. While I can't require Moneybarn to do so I would ask that it works with him to minimise any further financial problems he might face by not being able to get to work and therefore suffering from a reduced income.

my final decision

My final decision is that I uphold this complaint. Therefore I direct Moneybarn No. 1 Limited to:

- repay the deposit Mr B paid plus interest at 8% simple
- pay the cost of the repairs he carried out (providing he provides proof of the repairs and the costs) plus interest at 8% simple
- repay interest charged plus interest at 8% simple
- repay any fees added to account plus interest at 8% simple
- remove any adverse entries made on Mr B's credit file
- collect the car from Mr B at a convenient time, at no cost to him.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 20 January 2019.

Ivor Graham
ombudsman