

The complaint

Mr C complains Moneybarn No.1 Limited (Moneybarn) irresponsibly entered into a conditional sale agreement with him because it didn't carry out reasonable and proportionate checks to ensure the agreement was affordable for him.

What happened

Mr C entered into the conditional sale agreement on 26 April 2019 to acquire a used car. The cash price of the car was £7,428. Mr C didn't pay a deposit. The total amount repayable was £13,701.56 and the term of the agreement was 54 months. Mr C was to pay 53 equal consecutive monthly repayments of £258.52.

Shortly after entering the agreement, Mr C lost his job and he tried to keep up with the repayments. He said he had to borrow from friends and family and also had other financial commitments he was paying off. Mr C complained about the lending decision in June 2023. He was concerned it had been irresponsible because a large portion of his income went to clearing old debts. He said Moneybarn didn't check his other bills or complete satisfactory affordability checks.

Moneybarn responded to the complaint on 13 July 2023. It said it had carried out reasonable and proportionate checks by obtaining a full credit search, verifying monthly income by reviewing payslips and checking this against the information supplied. It said the lending decision was a fair one.

Mr C remained unhappy with the response and asked our service to investigate. Our Investigator issued a view explaining why they felt the checks hadn't been reasonable or proportionate. However, they felt had such checks been carried out then its likely Moneybarn would have found the agreement was affordable.

Mr C didn't accept the view. He said he had a lot of outstanding debts at the time which he was being chased for. He was concerned the view had been made based on one month alone. He said he didn't really know what was being accounted for, but he had a lot of transport costs. He also said he had a few outstanding debts which included payday loans, catalogue cards, a bank loan, and a mobile account. He provided some bills and receipts to show his committed spend.

Therefore, the complaint has been passed to me 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, and acknowledging it'll be disappointing for Mr C, I'm not upholding his complaint. I'll explain why 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 complete reasonable and proportionate checks to satisfy itself that Mr C would be able to repay the agreement in a sustainable way?

Moneybarn said it obtained information from credit reference agencies and calculated Mr C's non-discretionary expenditure of around £633. This was made up of monthly repayments towards credit commitments of £258.52. It also included estimated expenditure on living costs based on data from the Office of National Statistics (ONS).

Moneybarn aren't able to provide a copy of the credit search it completed. However, it has provided a summary. This said it had identified one County Court Judgment (CCJ) which had been applied 11 months before the lending decision. It said the CCJ was for a relatively low balance of £700. There wasn't high utilisation of revolving credit or any cash advances. Also, no use of pay day loans or home credit in the six months prior to the agreement. The search also showed there was 7 defaulted accounts, the most recent being 24 months before the agreement.

Moneybarn said Mr C confirmed he was in full time employment and reviewed payslips he provided for March and April 2019. It said it confirmed the payslips matched the information supplied and it assessed whether the income level stated reflected Mr C's occupation. It verified Mr C's net monthly income as £1,100.

I appreciate Moneybarn went some way to verify Mr C's income by obtaining payslips. However, I think given the adverse information which appeared in the credit search, including the recent CCJ, more should have been done to verify Mr C's non-discretionary expenditure. It wasn't reasonable for Moneybarn to rely on ONS data as the adverse information on the file suggested Mr C might not be the average customer and more might be going on with his financial circumstances. Therefore, further checks to determine Mr C's expenditure were warranted in the circumstances. I say this also with Mr C's income in mind and the proportion of that income which would be used to make the repayments. Further checks would have given a more accurate picture of Mr C's financial circumstances and allowed Moneybarn to ensure the agreement was affordable.

Would reasonable and proportionate checks have shown Mr C would be able to repay the agreement in a sustainable way?

As I don't think reasonable and proportionate checks were carried out, I need to consider what checks were likely to have shown had Moneybarn undertaken them at the time of the lending decision. To do this I've considered bank statements covering the period leading up to the lending decision. For clarity, I'm not saying Moneybarn needed to obtain bank statements. However, the statements give a good indication of the information it would likely have found out had it completed reasonable and proportionate checks.

I appreciate Mr C has raised concerns the view was only based off one month of statements. Our Investigator did explain he considered further statements, but March 2019 was the first month Mr C received a salary because he had just entered employment. Therefore, March 2019 most closely reflects Mr C's circumstances as they could be expected to continue

throughout the agreement. However, there are also some expected costs missing from the statements which I wanted to assure Mr C I've also thought about. As proportionate checks weren't completed, my decision is based on the evidence I do have and what I think such checks were more likely than not to have shown.

I can see Mr C's salary income was £1,851 in March 2019. I understand Mr C had just started working so there aren't any previous payslips, and it would have been reasonable to take this income to determine if the agreement was affordable. Mr C also provided his April 2019 payslip to Moneybarn prior to the lending which showed he received £2,023. This meant he received an average of around £1,937 across the two months. He said he only found a job at the beginning of March 2019 so this may be the reason for the slight discrepancy in pay. Nevertheless, the difference in pay isn't significant and doesn't change the overall outcome.

I've also thought about the non-discretionary outgoings on the statements in the months leading up to the agreement. This includes (but is not limited to) things like travel, food, and phone bill. Having considered this, I'm satisfied the identifiable non-discretionary expenditure was around £759 (including payments towards active credit). I want to assure Mr C this includes his travel costs which I can see were a significant spend for him at the time. He's also explained he owed family members and was making repayments so I've considered this so far as I can see the payments on the statements. This was around £230 and has also been included.

There aren't any costs for rent or bills on the statements. Mr C explained he was previously living with his sister. However, once he was employed, he expected to pay £500 for rent and bills. Therefore, I think this is what is likely to have been disclosed at the time. Taking this into account I think Mr C's identifiable committed spend would have been around £1,259.

This meant Mr C's total committed spend would be around £1,518 with the repayments under the agreement of £258.52. This meant he had around £419 disposable income remaining. I think there was enough disposable income to suggest Mr C could make the repayments sustainably. I appreciate the disposable income I have calculated is slightly higher than that of our Investigator. This is mainly because Moneybarn had both payslips from March and April 2019 and I think it would have been reasonable to rely on such. I'm satisfied even with taking the lower amount in March 2019, the agreement would have seemed affordable.

I also appreciate Mr C had outstanding debts and he has provided correspondence from debt recovery agents to show what he was being chased for. Moneybarn also had some information about the outstanding balances. From what I've seen, I don't think Moneybarn would have identified regular repayments towards these debts although it could see Mr C was making contributions because it confirmed the balances were reducing. Whilst more repayments do appear on Mr C's statement from April 2019 (probably after Mr C entered employment and started to receive a regular income), the payments were made after the lending so wouldn't have been visible to Moneybarn. However, given the disposable income and thinking about the outstanding balances, it would have been reasonable to conclude Mr C would have sufficient remaining to contribute towards these debts.

Mr C has also pointed out that he relied on incoming payments from friends and family. I can see transactions to support this from the statements. However, this wouldn't necessarily be seen as unusual as Mr C had previously been unemployed. So, it reasonably could be expected Mr C wouldn't need to rely on family members going forward as he started to receive a regular income. So, I can't conclude this was a reason why Moneybarn shouldn't have lent.

Having considered everything, I'm satisfied that had reasonable and proportionate checks been carried out, it's likely they would have shown the agreement was affordable. I appreciate Mr C has provided some further details about his financial circumstances at the time and has raised some concern about his full situation not being considered. But I have to decide what I think Moneybarn were likely to have found out had it completed reasonable and proportionate checks. Additionally, what I think was likely to have been disclosed bearing in mind Mr C wanted the finance for a car at the time. Overall, I think it's more likely than not that proportionate checks carried out at the time would have shown Mr C had sufficient income to meet his financial commitments and make the repayments sustainably. Therefore, I won't be asking Moneybarn to do anything to resolve this complaint.

My final decision

For the reasons outlined above, I'm not upholding this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 9 April 2024.

Laura Dean
Ombudsman