DRN-4530913

Complaint

Mr M complains that Moneybarn No. 1 Limited ("Moneybarn") unfairly entered into a conditional sale agreement with him. He's said that the payments to the agreement were unaffordable, so he should not have been lent to.

Background

In January 2018, Moneybarn provided Mr M with finance for a used car. The purchase price of the vehicle was £8,361.15. Mr M paid a deposit of £51 and entered into a conditional sale agreement, which had a 60-month term, with Moneybarn for the remaining £8,310.15.

The loan had interest and charges of £7,738.44. This meant that the total amount to be repaid of £16,048.59 (not including Mr M's deposit) was due to be repaid in 59 monthly instalments of £272.01.

Mr M complained that the agreement was unaffordable and so should never have been provided to him. Moneybarn didn't uphold the complaint. It said that its checks confirmed that the finance was affordable and so it was reasonable to lend.

Mr M's complaint was considered by one of our investigators. He didn't think that Moneybarn had done anything wrong or treated Mr M unfairly. So he didn't recommend that Mr M's complaint should be upheld. Mr M disagreed with our investigator and the complaint was passed to an ombudsman for a final decision.

My findings

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

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 Mr M's complaint.

Having carefully thought about everything I've been provided with, I'm not upholding Mr M'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 any lending was sustainable for Mr M before providing it.

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 Mr M provided details of his monthly income, which it verified with copies of bank statements. It also says that it carried out credit searches on Mr M, which had shown that he had previously defaulted on credit accounts but had no county court judgments ("CCJ") recorded against him. The most recent default was approaching five years prior to this application.

In Moneybarn's view, when the amount Mr M already owed plus a reasonable amount for Mr M's living expenses (based on average data) were deducted from his monthly income the monthly payments for this agreement were still affordable.

On the other hand, Mr M says his existing commitments meant that these payments were unaffordable and there was no way he was going to be able to maintain them.

I've thought about what Mr M and Moneybarn have said.

The first thing for me to say is that I'm not persuaded that the checks Moneybarn carried out did go far enough. For example, I'm not persuaded that it was reasonable to rely on an estimate of Mr M's living costs given what the credit search carried out showed, the monthly payments, the term of the agreement and the total cost of the loan.

In these circumstances, I think that Moneybarn ought to have done more to ascertain Mr M's actual regular living costs. That said, I don't think that Moneybarn obtaining further information on Mr M's actual living costs, rather than using average data, would have made a difference to its decision to lend in this instance.

I say this because when Mr M's actual living expenses are added to his active credit commitments and deducted from the income he received, he appears to have enough left over to make the repayments to this agreement. So I think that Moneybarn obtaining further information is likely to have led it to conclude that when Mr M's regular living expenses and existing credit commitments were deducted from his monthly income, he did have the funds, at the time at least, to sustainably make the repayments due under this agreement.

I accept it's possible that Mr M's actual circumstances at the time might have been worse than what I've seen here. But a lender is only able to make a decision based on what it has, or at the very least is likely to have. And as obtaining further information about Mr M's monthly living costs, is unlikely to have shown the agreement to be unaffordable, while I appreciate that it might have proven more difficult for Mr M to make his payments than he'd anticipated, I don't think that asking for more information would have prevented Moneybarn from lending in this instance.

As this is the case, I don't think that Moneybarn acted unfairly or unreasonably towards Mr M. So I'm not upholding this complaint. I appreciate that this will be disappointing for Mr M. But I hope he'll understand the reasons for my decision and at least consider that his concerns have been listened to.

My final decision

My final decision is that I'm not upholding Mr M's complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr M to accept or reject my decision before 7 March 2024.

Jeshen Narayanan
Ombudsman