DRN-4600519

The complaint

Mr R is complaining about Moneybarn No.1 Limited. He says they shouldn't have lent to him as the loan was unaffordable. A representative has brought the complaint on Mr R's behalf but for ease I've written as if we've dealt directly with Mr R.

What happened

In June 2020, Mr R took out a conditional sale agreement with Moneybarn to finance the purchase of a car. He paid a deposit of £2,000 and borrowed £8,995 – the cash price of the vehicle was £10,995. The agreement required Mr R to make 59 monthly payments of £276.03. One of Mr R's direct debits bounced in June 2022 – but he made the payment by card a few days later. He made all other payments on time and settled the agreement early in November 2023.

Mr R complained to Moneybarn in March 2023. He said the agreement wasn't properly explained and appropriate affordability checks weren't carried out. He said the agreement caused him anxiety and stress and led him to fall into arrears with rent and other living expenses. He said it also meant he took out other debts in order to make the repayments.

Moneybarn didn't uphold Mr R's complaint, saying they'd done enough to check affordability, carrying out a credit search and checking his income to his bank statements as well as making "reasonable considerations" for his existing expenses.

Mr R remained unhappy so brought his complaint to our service and one of our investigators looked into it. Our investigator's view was that Moneybarn's checks hadn't been proportionate but if they had been Moneybarn could still have fairly decided to lend to Mr R.

Mr R said it was clear Moneybarn hadn't done appropriate checks and it wasn't possible to fully understand his financial position without a comprehensive credit check as well as the bank statements. He also noted the presence of gambling transactions in his bank statements. Mr R asked for a decision – and the matter's come to me.

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 R, I'm not upholding his complaint for broadly the same reasons as our investigator - I'll explain 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 carry out proportionate checks?

Moneybarn said they checked Mr R's credit file and also looked at his bank statements to verify his income. They said they made reasonable allowances for Mr R's expenses and although they didn't explain in their complaint response to Mr R what this meant it appears from what they sent us that they used Office for National Statistics (ONS) data as well as information from Mr R's credit file.

Whether or not these checks were proportionate depends on various factors, including the size and length of the loan, the cost of credit, and what Moneybarn found. This agreement required Mr R to pay Moneybarn nearly £20,000, over a period of five years, and at a relatively high cost of credit so my starting point is that the checks should have been thorough. On top of that, Moneybarn said the credit file they looked at showed Mr R had four defaulted accounts and two County Court Judgments (CCJs) but the most recent of these was 32 months prior to his application. Moneybarn said Mr R's defaulted accounts had been settled by the time of his application, and his active credit balances totalled around £4,220.

Mr R's income was relatively high, at around £4,000 per month. But his bank statements showed that this amount was made up of numerous payments of variable frequency and amount. In addition, Mr R had existing defaults and fairly high levels of existing debt. So I don't think it was enough for Moneybarn to rely on ONS data or the income information they had. I think they should have taken further steps to understand Mr R's income and expenditure before deciding to lend to him.

I also note that CONC requires a business to take into account all the information they have available to them – and I've seen no evidence Moneybarn took into account the information contained in Mr R's bank statements.

Concluding that Moneybarn didn't carry out proportionate checks isn't enough to uphold Mr R's complaint – I also have to consider whether Moneybarn could have fairly lent to Mr R if they had done proportionate checks.

What would Moneybarn have found if they had done proportionate checks?

A proportionate check would have involved Moneybarn finding out more about Mr R's income and expenditure to determine whether he'd be able to make the repayments in a sustainable way.

I've reviewed the statements Moneybarn had – these appear to be for Mr R's main bank account and cover mid-March 2020 to mid-June 2020 – the months leading up to his application to Moneybarn. We've also asked Mr R some questions about his key bills like utilities and council tax and the figures he's suggested are broadly in line with the ONS data Moneybarn obtained so I've used those in my assessment.

The bank statements show Mr R's income was inconsistent – he received frequent but variable payments, averaging about £4,125 per month. This income was gross – looking at his tax returns it appears he was paying tax of roughly £200 per month, and so his net income averaged out at around £3,900 per month – I'm satisfied Moneybarn could have reasonably assessed it at this amount.

Turning to expenditure, Mr R was spending around £850 per month on his mortgage, rates and utilities, including phone and TV. He was spending around £200 per month on motor expenses and I'm satisfied £300 per month is a reasonable estimate for how much he was spending on food. The amount he was paying to creditors was around £860. In addition, Mr R was giving his children pocket money of around £300 per month. In total, I think Moneybarn could have reasonably concluded Mr R's committed and non-discretionary expenditure was at most around £2,500 each month. Deducting this from his income would have left him with around £1,400 a month from which to make his monthly payments of £276. So I can't say Moneybarn should have concluded the agreement was unaffordable for Mr R.

From looking through Mr R's bank statements, I've noted the gambling transactions Mr R referred to when asking for an ombudsman's decision on his complaint. I can see that in some cases the amounts were significant – across the three months I've looked at Mr R spent around £500 per month on gambling. However, when considering the frequency of these transactions and the amounts relative to his disposable income, I've not seen evidence that Mr R was gambling compulsively. So I don't think an awareness of these transactions should have prevented Moneybarn from lending to Mr R.

In summary, I'm satisfied that if Moneybarn had done proportionate checks they could have reasonably arrived at the same outcome and decided the loan was affordable for Mr R. So I'm not upholding the complaint.

My final decision

As I've explained above, I'm not upholding Mr R's complaint about Moneybarn No. 1 Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 8 March 2024.

Clare King
Ombudsman