

The complaint

Mr H is complaining about Moneybarn No.1 Limited. He says they shouldn't have made three separate loans to him as each was unaffordable. A representative has raised the complaint on Mr H's behalf but for ease I've written as if we've dealt directly with Mr H.

What happened

Moneybarn approved three separate conditional sale agreements for Mr H, with details as follows:

December 2017: Mr H paid no deposit and borrowed £8,763 - the cash price of the vehicle. The agreement required him to make 59 monthly repayments of £282.15. Mr H missed a couple of payments due to bounced direct debits but then settled the agreement early in October 2018.

February 2022: Mr H paid a deposit of £2,700 and borrowed £8,050 - the cash price of the vehicle was £10,750. The agreement required him to make 59 monthly repayments of £282.65. Mr H made all of his payments on time and settled the agreement early in January 2023, replacing this agreement with a third Moneybarn agreement.

January 2023: Mr H borrowed £7,595 - the cash price of the vehicle. The agreement required him to make 59 monthly repayments of £231.29. At the point Moneybarn provided their file to us, Mr H had made all his payments on time and the agreement was still running.

Later in January 2023, Mr H complained to Moneybarn, saying they'd been irresponsible in lending to him. He wanted Moneybarn to refund all interest and charges.

In response to Mr H's complaint, Moneybarn said they'd carried out proportionate checks before making each lending decision. These had included reviewing Mr H's credit file, verifying his income, and using statistical data to estimate his expenditure. So, they concluded, they'd not acted irresponsibly in lending to Mr H, and they didn't uphold his complaint.

Mr H wasn't happy with Moneybarn's response 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. He thought if they had done proportionate checks Moneybarn could have fairly decided the first two agreements were affordable. But, on reviewing Mr H's income and expenditure at the time of the third agreement, he thought Moneybarn wouldn't have been able to fairly lend to Mr H. So, our investigator recommended Mr H's complaint about the third agreement be upheld.

Mr H accepted our investigator's view, but Moneybarn didn't. They disagreed with our investigator's view on Mr H's levels of income, and on what level of disposable income was necessary. As no agreement was reached, the complaint came to me.

On 3 July 2024, I wrote to both parties. I explained I didn't intend to look into the first two loans any further and I said I wasn't expecting to uphold the complaint in relation to the third loan. In that email, I said:

“Turning to the third loan, I've reviewed [Mr H's] bank statements for October to December 2022. I'm not at all convinced this loan was unaffordable - he had significant amounts of income from other sources apart from his wages, and doesn't appear to have been making payments for rent or utilities, so his non-discretionary expenses were relatively limited. I appreciate [Mr H] had significant defaulted debts at the time, but aside from that, I can't see any reason at this stage that Moneybarn shouldn't have lent to him. Our investigator didn't consider the additional sources of income, and also said that he didn't think £200 per month was enough disposable income to say the agreement was affordable. Although I haven't reached a conclusion, I'm inclined to disagree with our investigator on both of those points - it's likely I would say Moneybarn could have included at least some of the additional income in an affordability assessment, and it's likely I'd consider £200 disposable income was enough.”

I also asked for some additional information that I'd need if Mr H disagreed with me.

Mr H replied to my email, explaining the additional income from individuals I'd identified. He said payments of around £600 per month from one individual were from his partner at the time to help with bills and caring for his children. He described payments of £300 per month from another individual as money owed to him from a previous partner, and payments of £200 per month from another individual as amounts to help him with food shopping as he was living beyond his means.

Mr H didn't reply to my questions about his living situation at the time and what payments he was making for rent, utilities or council tax. But he disagreed with the thinking I'd set out in my email, reiterating that the vehicle was unaffordable due to his financial circumstances.

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 H, I'm not upholding his complaint. There doesn't seem to be any dispute over the first two agreements, so I've not considered those further. And there doesn't seem to be any dispute that Moneybarn's checks in relation to the third agreement weren't proportionate given the size and term of the agreement and Mr H's credit file at the time. So I'll focus on what Moneybarn would have found if they had carried out proportionate checks before making their third lending decision.

I've looked at statements for Mr H's bank account for the three months leading up to his application to Moneybarn. And I've looked at Mr H's credit report as it gives more detail than Moneybarn's summary. I'm not saying Moneybarn needed to obtain bank statements as part of their lending checks. But in the absence of other information, bank statements provide a good indication of Mr H's income and expenditure at the time the lending decision was made.

The bank statements show Mr H's income was a little inconsistent. In October 2022, Mr H was being paid approximately weekly. In November 2022, he appears to have changed jobs and was paid £1,787 for the month. He was paid around the same amount in December 2022, so if Moneybarn had found out more about Mr H's income, it's likely they'd have expected his net wages would be around that amount going forward.

Mr H's credit report shows that at the time of his application he had one active credit card with a balance of around £130 and two hire purchase agreements, for which he needed to pay around £200 per month. He had no other active credit agreements. It also shows Mr H had three defaulted accounts, with balances totalling around £12,900. I couldn't see any evidence in either the credit report or bank statements that Mr H was making payments

towards his defaulted accounts. But I do think Moneybarn ought to have made some provision for these – the amounts were still due. In total, Moneybarn estimated Mr H's payments to creditors at £263 per month. I think this figure ought to have been higher – around £350 per month, to take into account the defaulted accounts as well as repayments to active creditors.

Mr H's statements show little in the way of other committed expenditure – I couldn't see any evidence that Mr H was paying anything for rent, utilities, or council tax, and he's not explained this to us. They do show costs of around £270 per month in road tax and insurance, and £120 per month for phone and TV subscriptions. In addition, Mr H was spending around £500 per month on food and fuel – whilst not committed expenditure, I'd consider this essential spending. So, in total, the statements and credit report together suggest Mr H's non-discretionary and committed outgoings amounted to around £1,240 per month.

If Moneybarn had used the figures I've set out above, they'd have calculated Mr H's monthly disposable income as being around £547 – from which to make the payments under the agreement of £231. This would have left Mr H with around £300 to cover emergency and discretionary spending – which suggests the agreement was affordable for him.

I'm aware Mr H has told us how difficult his financial situation was at the time. But I couldn't see evidence of this in his bank statements. In addition to his wages, Mr H had regular income from his partner who was contributing to his living expenses and childcare expenses. He had significant amounts of discretionary expenditure, for example on gaming and eating out. And he was able to transfer money out to his savings account on several occasions (a total of £1,000 across the three months) whilst maintaining a positive balance on his current account.

In summary I'm satisfied Moneybarn could have fairly decided Mr H was left with enough disposable income for non-essential and emergency spending and therefore that the agreement was affordable for him. So I'm not upholding the complaint.

My final decision

As I've explained above, I'm not upholding Mr H's complaint about Moneybarn No. 1 Limited. Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 12 August 2024.

Clare King
Ombudsman