

Complaint

Mr C complains that Moneybarn No. 1 Limited (“Moneybarn”) unfairly entered into a conditional sale agreement with him.

He’s said that his credit history demonstrates that the payments to the agreement were unaffordable, so he should not have been lent to.

Background

In January 2019, Moneybarn provided Mr C with finance for a used car. The purchase price of the vehicle was £10,910.00. Mr C paid a deposit of £400 and entered into a conditional sale agreement, which had a 60-month term, with Moneybarn for the remaining amount of £10,510.00 he needed to complete his purchase.

The loan had interest and charges of £14,074.71. This meant that the total amount to be repaid of £24,584.71 (not including Mr C’s deposit) was due to be repaid in 59 monthly instalments of £416.69.

Mr C 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.

The complaint was considered by one of our investigators. He didn’t think that Moneybarn had done anything wrong or treated Mr C unfairly. So he didn’t recommend that Mr C’s complaint should be upheld.

Mr C 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 C’s complaint.

Having carefully thought about everything I’ve been provided with, I’m not upholding Mr C’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 C 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.

I've kept this in mind when considering the checks that Moneybarn carried out.

Moneybarn's checks

Moneybarn says it agreed to this application after Mr C provided details of his monthly income, which it verified against bank statements which he provided. It also says that it carried out credit searches on Mr C, which had shown that he had defaulted on previous credit accounts but the most recent of these took place more than 12 months prior to this agreement. Mr C also had no County Court Judgement ("CCJ") recorded against him.

In Moneybarn's view, when reasonable repayments towards the amount Mr C already owed plus a reasonable amount for Mr C'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 C says that the payments were unaffordable and there was no way he was going to be able to maintain them.

Was Moneybarn's assessment reasonable and proportionate?

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

Having done so, I'm not persuaded that it was reasonable to rely on an estimate of Mr C's living costs given Mr C's previous difficulty with credit, the cost of this credit and the term of this agreement. In these circumstances, I think that Moneybarn ought to have done more to ascertain Mr C's actual regular living costs. I say this particularly as Moneybarn was already in possession of bank statements it had obtained from Mr C.

What is a reasonable and proportionate assessment is likely to have shown?

As Moneybarn should have done more, I've gone on to decide what I think Moneybarn is more likely than not to have seen had it done that here. Given the circumstances here, I would have expected Moneybarn to have had a reasonable understanding about Mr C's regular living expenses as well as his income and existing credit commitments.

I've considered the information Mr C provided Moneybarn with at the time of the application. I wish to make it clear that I'm not going to forensically re-underwrite Mr C's application. I say this particularly as Mr C's most recent submissions are being made in support of a claim for compensation and any explanations he would have provided at the time are more likely to have been with a view to persuading Moneybarn to lend, rather than highlighting any unaffordability.

As this is the case, I'm simply going to try and get some idea of what Moneybarn is likely to have found out about Mr C's living expenses had it done proportionate checks. I say this because when what the bank statements Mr C has provided show what he was paying to his actual committed living expenses are added to his active credit commitments and deducted

from his income, he, at the time at least, appears to have enough left over to repay this agreement.

I know that Mr C has queried whether one of his commitments should have been included. Bearing in mind that the payments didn't have to be made for much longer, I don't think it was unreasonable to exclude it. Nonetheless, even if these payments were included the monthly payment to this agreement was still affordable.

I've also seen what's been said about Mr C not having sufficient funds to cover maintenance and any other non-discretionary costs which may have arisen during the course of the agreement. The first thing for me to say is that Moneybarn wasn't advising, nor was it required to advise, Mr C about the suitability of making the purchase he was entering into. So it was for Mr C to consider whether he might be increasing his non-discretionary expenditure.

Secondly, the figures being disputed now are from an expenditure assessment conducted from bank statements. This is a much more granular assessment capturing what Mr C's expenditure actually was. It did not rely on Mr C declaring his expenditure which may not have been fully accurate and therefore required an additional surplus to remain in order to guard against any errors.

Finally, I'm also mindful that Mr C was being provided with a vehicle. And this was something that would benefit his household. I've noted that Mr C transferred funds to his wife for household expenditure. I think it's likely that this contribution to the household would flex up and flex down depending on the funds he had and I think that this could well have changed should Mr C choose to take on further commitments in the future.

In these circumstances, I don't think that Moneybarn carrying out further checks is likely to have led it to conclude that when Mr C's regular living expenses and existing credit commitments were deducted from his monthly income, he did not have the funds, at the time at least, to sustainably make the repayments due under this agreement.

Overall and having carefully considered everything, while I'm not persuaded that Moneybarn's checks before entering into this conditional sale agreement with Mr C did go far enough, I'm satisfied that Moneybarn doing more won't have stopped it from providing these funds, or entering into this agreement with him.

In reaching this conclusion I've also considered whether the lending relationship between Moneybarn and Mr C might have been unfair to Mr C under section 140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I don't think Moneybarn irresponsibly lent to Mr C or otherwise treated him unfairly in relation to this matter. And I haven't seen anything to suggest that section 140A CCA or anything else would, given the facts of this complaint, lead to a different outcome here. So I'm not upholding this complaint.

I appreciate that this will be disappointing for Mr C. 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 C's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 12 August 2024.

Jeshen Narayanan
Ombudsman