The complaint

Mr M complains that My Finance Club Limited trading as Ondal ("MFC") gave him a loan he couldn't afford to repay while he had a poor credit score and while he had several large loans outstanding.

What happened

Mr M was advanced one loan of £400 on 20 March 2023. The agreement was due to run for 38 days with one payment due to MFC of £521.60. Mr M has had some problems repaying his loan and the most recent information from MFC said an outstanding balance remained due.

After Mr M made a complaint about the loans, MFC responded and explained why it wasn't going to uphold his complaint. But MFC did offer to set up a repayment plan and if so it would reduce what Mr M owed to the original amount he was contracted to pay.

Unhappy with the response, Mr M referred the complaint to the Financial Ombudsman.
In the investigator's assessment, he didn't uphold the complaint because the checks that MFC carried out showed it that Mr M should be able to afford his repayment.

Mr M didn't agree with the outcome. He said that had MFC looked at his application, it would have seen rising levels of debt and recent loan applications – all of which should've made it question whether he could actually afford this loan.

Mr M further explained that he was, at the time, having to use a large part of his wages to service his existing debt. Mr M has provided this service with an overview of his outstanding loans at the time which included two loans taken a matter of weeks before this MFC loan.

As no agreement has been reached, the case has been passed to me for a decision.

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.

We've set out our general approach to complaints about this type of lending - including all the relevant rules, guidance and good industry practice - on our website. I've taken these into account when considering this complaint.

MFC had to assess the lending to check if Mr M could afford to pay back the amount he'd borrowed without undue difficulty. It needed to do this in a way which was proportionate to the circumstances. MFC's checks could have taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr M's income and expenditure.

With this in mind, I think in the early stages of a lending relationship, less thorough checks might have been proportionate. But certain factors might suggest MFC should have done more to establish that any lending was sustainable for Mr M. These factors include:

- Mr M having a low income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- The amounts to be repaid being especially high (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- Mr M having a large number of loans and/or having these loans over a long period of time (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable);
- Mr M coming back for loans shortly after previous borrowing had been repaid (also suggestive of the borrowing becoming unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable for Mr M. The investigator didn't consider this applied in Mr M's case and I would agree, given there was only 1 loan.

MFC was required to establish whether Mr M could *sustainably* repay the loan – not just whether he technically had enough money to make his repayment. Having enough money to make the repayment could of course be an indicator that Mr M was able to repay his loan sustainably. But it doesn't automatically follow that this is the case.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Mr M's complaint.

Before the loan was approved, Mr M declared he worked full time and he earned £3,173 per month. MFC also says Mr M's income was electronically verified through a third-party report – which suggested the income he had declared was likely to be accurate. For a first loan I don't think MFC needed to have carried out any further checks into Mr M's income.

In terms of monthly expenditure, Mr M provided details about his expenditure across several different headings such as, utilities, 'other', food and other credit commitments– to name a few. MFC says Mr M's outgoings came to £1,991. Therefore, based on the information it had to hand, the loan looked affordable as Mr M had sufficient disposable income to afford the repayment.

Before the loan was advanced, MFC also carried out a credit search and it provided the results it received from the credit reference agency. It is worth saying here that although MFC carried out a credit search, there wasn't a regulatory requirement to do one, let alone one to a specific standard. But what MFC couldn't do is carry out a credit search and then not react to the to the information it received – if necessary.

I am satisfied that the credit check results wouldn't have been a concern for MFC. It knew that Mr M had outstanding unsecured loans which had various outstanding balance from £998 to £6,460 and he owed £17,482 in total. These loans had been opened between 4 months and 29 months before this loan. Mr M was up to date with his repayments and didn't have any adverse payment markers.

I have thought about the total debt Mr M had, but given what the credit file showed and what he declared to MFC, I think it was reasonable for this first loan for MFC to not have made any further checks into the outstanding loans that Mr M had at the time. There also wasn't anything to suggest that he was reliant on payday loans to cover his expenditure or was a regular user of such products. This has led me to conclude that the credit searches on their own wouldn't be enough to have prompted further, more in-depth checks, or to have led MFC to decline the loan application.

There were also no triggers in any of the other information given to MFC to have prompted it to have reviewed the bank statements Mr M has provided our service. Given what MFC did know about Mr M, I think it would've been disproportionate to expect MFC to have reviewed the statements.

Overall, given this was the only loan, it was reasonable for MFC to have relied on the information that Mr M provided about his income and expenditure. In my view, the checks MFC carried out were proportionate and showed Mr M should be able to afford the repayments. There also wasn't anything else to suggest that the loan would either be unaffordable for him or unsustainable.

It's possible the loan has now been repaid, given Mr M agreed a restructured payment plan to repay the balance, with the final payment due in July 2023. If an outstanding balance remains due, I would remind MFC of its regulatory obligation to treat Mr M fairly and with forbearance.

I do not uphold Mr M's complaint about the loan.

My final decision

For the reasons set out above, 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 2 January 2024.

Robert Walker
Ombudsman