DRN-4246507

The complaint

Mr M complains that My Finance Club Limited ("MFC") gave him loans without carrying out the correct affordability checks.

What happened

Mr M was advanced two loans and I've outlined a summary of his borrowing below:

loan number	loan amount	agreement date	repayment date	contracted term (days)
1	£400.00	23/12/2021	28/01/2022	38
2	£400.00	28/02/2022	31/03/2022	38

After Mr M made a complaint about the loans, MFC responded and explained why it wasn't going to uphold his complaint. Unhappy with the response, Mr M referred the complaint to the Financial Ombudsman Service.

In the adjudicator's assessment, she didn't uphold the complaint because the checks that MFC carried out showed it that Mr M should be able to afford his repayments.

Mr M didn't agree with the outcome saying his bank statement and credit file ought to have been enough to show that the loans should not have been granted and therefore his complaint should be upheld.

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.

MFC had to assess the lending to check if Mr M could afford to pay back the amounts 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 adjudicator didn't consider this applied in Mr M's case and I would agree, given there were only two loans of the same value.

MFC was required to establish whether Mr M could *sustainably* repay the loans – not just whether he technically had enough money to make his repayments. Having enough money to make the repayments could of course be an indicator that Mr M was able to repay his loans 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 loans were approved, Mr M declared he worked full time and he earned £3,009 per month when both loans were applied for. 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.

In terms of monthly expenditure, Mr M provided details about his costs 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 £1,140 per month for loan one and £1,000 per month for loan two. Therefore, based on the information it had to hand these loans looked affordable as Mr M had sufficient disposable income.

No housing costs had been declared, but Mr M had told MFC that he had accommodation provided as part of his job and MFC said this was verified using electoral roll data and so this supported Mr M's lower levels of regular household expenditure. So, the small housing costs wouldn't have been a concern.

Before these loans were 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 for either loan. For loan one it knew that Mr M had a hire purchase agreement, two communication supply accounts, two current accounts and three loans. One of the loans had been opened in August 2021 but was up to date with the repayments.

MFC also knew Mr M had opened a payday loan in November 2021 – so the month before loan one. However, this appeared to be an instalment loan given the starting value of £1,000 and the balance at the time the search was carried out was £885. The presences of one payday loan wouldn't have been sufficient for MFC to have conducted further checks when it appeared to have been well managed with no obvious repayment problems.

For loan two the results from the credit reference agency are much the same, which would be expected given this check was only conducted two months later. However, this time MFC was told there wasn't any outstanding payday loans.

Overall, taking account of the credit search results there wasn't any indication that Mr M would likely to struggle to repay these MFC loans, and there wasn't anything to suggest that he was reliant or payday loans 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 decline the two loans.

I can see that as part of his submission that Mr M has provided a copy of his bank statements from around the time these two loans were advanced. Mr M has told us about his gambling, and I can see that from his bank statements he was moving significant amounts to such sites as well as crypto currency exchanges. But, that information wasn't disclosed to MFC as part of the application process and the information MFC did receive both from Mr M and the credit reference agency didn't suggest that Mr M was having or likely having financial difficulties.

There were also no triggers in the way loan one was repaid or in the loan values to have prompted MFC to do further checks, such as reviewing his bank statements. Given what MFC did know about Mr M's spending and it would've been disproportionate for it to have considered the bank statements at this point in the lending relationship.

Overall, given these were the only loans in the lending chain and they were for the same amount of capital, it was reasonable for MFC to have relied on the information that Mr M provided about his income and expenditure. The checks MFC carried out where 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.

I do not uphold Mr M's complaint about these loans.

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 1 November 2023.

Robert Walker
Ombudsman