DRN-3447520

The complaint

Miss D complains that My Finance Club Limited was irresponsible to lend to her.

What happened

Miss D had two loans from My Finance Club between April 2021 and December 2021 as follows:

Loan	Date	Amount	Term	Scheduled Repayment	Due	Repaid
1	11 Apr 2021	£400	38d	£521.60	19 May 2021	25 May 2021
2	1 Dec 2021	£170	18d	£194.48	19 Dec 2021	15 Dec 2021

Miss D says she took out multiple loans and credit cards in 2021 and should not have been approved for further credit. She says My Finance Club should have seen that the outgoings on her credit file were higher than those she'd declared and looked into the inconsistency. Miss D says she had to borrow more money to make the repayments and is now struggling to repay all her other credit as the loans were unaffordable. Miss D adds that she was having to ask friends and family for money for essentials, which affected her mental health and her relationships, especially when they found out she was gambling.

My Finance Club says it asked Miss D for details of her employment, her income and expenditure and also checked her credit file. It says it verified her income with a payslip and confirmed she was living with her parents via the electoral roll. My Finance Club says Miss D's credit file showed her existing credit was well-managed and its other checks showed the lending was responsible.

Our adjudicator did not recommend the complaint should be upheld. She was satisfied that My Finance Club had carried out proportionate checks and there was nothing in the available information to indicate further checks were required, or that the repayments were unsustainable.

Miss D responded to say, in summary, that her credit file would have shown a lot of borrowing before loan 2 and so My Finance Club should have asked for further information.

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 short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

My Finance Club needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Miss D could repay the loans in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that My Finance Club should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a customer's 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 *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

I think that it is important for me to start by saying that My Finance Club was required to establish whether Miss D could sustainably repay her loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the Consumer Credit Sourcebook ("CONC") defines sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

I've carefully considered all the arguments, evidence and information provided in this context and what this all means for Miss D's complaint.

<u>Loan 1</u>

When Miss D applied for this loan, I can see that My Finance Club verified her income with a payslip and carried out a credit check. However, I'm not satisfied these checks went far enough because:

- Miss D's scheduled repayment was over 42% of her income;
- Although Miss D lived at home with her parents, My Finance Club's affordability assessment only shows expenditure on credit;

I find, therefore, that My Finance Club should have asked Miss D about any other expenditure at the time, including short-term loans that may not yet be on her credit file.

I've had a look at Miss D's full credit report and her bank statements from the time and they show:

- Miss D had a small monthly expenditure on insurance and a mobile phone;
- She had no other short-term loans at the time of the lending;
- Miss D appeared to have additional income which had not been considered during the analysis.

Although I accept that Miss D began gambling in April 2021, the level of checks that I consider proportionate for this lending would not have required My Finance Club to obtain bank statements at this stage. So, whilst Miss D did have additional expenditure that it had not captured, she didn't have any additional credit commitments of which My Finance Club should have been aware and the loan repayment was still affordable based on the information it should have had, especially when the additional income was taken into account.

So I don't find My Finance Club was irresponsible to have approved loan 1.

<u>Loan 2</u>

Miss D repaid loan 1 six days after its original due date, but My Finance Club had agreed to the later date. There was a six-month break between the two loans and the loan amount, and the repayment, were both significantly lower. I'm satisfied that My Finance Club's checks went far enough for this loan because:

- Miss D's income was now around £1,850 which, again, My Finance Club verified with a payslip;
- The scheduled repayment was just over 10% of Miss D's income;
- I've seen evidence that My Finance Club asked Miss D about her expenditure and found she had sufficient disposable income to make the repayment;
- Due to the break in lending, there was no indication that Miss D was becoming dependent on short-term loans;
- The credit check showed one new loan and two new credit cards since loan 1, but all payments were up to date and consistent with what Miss D had declared;

Although Miss D's total debt had increased to almost £4,000, I find that's reasonable given her income and there was nothing to indicate she was struggling to manage that level of debt, nor that further checks were required.

So I find My Finance Club carried out proportionate checks for loan 2 and there was no information to suggest the repayment was unaffordable.

Again, I can't conclude My Finance Club was irresponsible to have approved loan 2.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 3 June 2022.

Amanda Williams
Ombudsman