

The complaint

Mr S complains that My Finance Club lent to him when it should not have done. He complains that the most basic of checks by My Finance Club would have shown the state of his finances and led it not to have lent to him.

What happened

On 31 May 2022 Mr S was approved for a loan of £400 by My Finance Club. It was a payday loan and was due to be repaid on 30 June 2022. The total to pay in that one instalment was £496. Nothing has been paid by Mr S.

Mr S complained to My Finance Club soon after taking the loan, received a final response letter (FRL) from it and then referred his complaint to the Financial Ombudsman Service in July 2022.

One of our adjudicators looked at the complaint. She did not think that My Finance Club had done anything wrong. She did not uphold the complaint. Mr S thinks that was the wrong outcome. The unresolved complaint was passed to me to decide.

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.

My Finance Club had to assess the lending to check if Mr S 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. My Finance Club's checks could've taken into account a number of different things, such as how much was being lent, the size of the repayments, and Mr S'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 My Finance Club should have done more to establish that any lending was sustainable for Mr S. These factors include:

- Mr S 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 S 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 S coming back for loans shortly after previous borrowing had been repaid (also suggestive of the borrowing becoming unsustainable).

My view is that none of these bullet points applied to Mr S's situation as he had declared an income of around £3,400 a month after tax which My Finance Club had verified by reviewing his payslip. I have seen a copy of that payslip. Mr S's gross salary was over £6,000 a month. And I do not consider that to have been a low income. Plus, this was a first loan for a relatively modest sum over a relatively modest term.

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable for Mr S. But a pattern would not have developed here as Mr S took one loan only.

My Finance Club was required to establish whether Mr S could *sustainably* repay the loan – 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 S was able to repay his loan sustainably. But it doesn't automatically follow that this is the case.

Industry regulations say that payments are sustainable if they are made without undue difficulties and, made on time, while meeting other reasonable commitments and without having to borrow to make them. If a lender realises, or ought reasonably to have realised, that a borrower won't be able to make their repayments without borrowing further, then it follows that it should conclude those repayments are unsustainable.

I've considered all the arguments, evidence and information provided in this context, and thought about what this means for Mr S's complaint. I've decided not to uphold his complaint and I explain here.

My Finance Club carried out proportionate checks as it verified his income, checked his credit file which did not show any elements to prompt it to be unduly concerned. There was nothing there to indicate that Mr S was in financial difficulties or had been falling behind in his payments. The adverse entries (some historic low grade arrears) related to accounts which were well before he applied for this one and a lender such as My Finance Club would have been used to lending to customers with some adverse credit history.

The income and expenditure assessment My Finance Club carried out indicated that Mr S had enough disposable income to repay the £496 for that one month.

I have read what Mr S has said that he had several outstanding payday loans when he applied for this loan with My Finance Club. The credit search it carried out on Mr S did not show that to it. It seems that Mr S was very aware of his financial situation. He may have applied for the loan knowing he could not afford it. But I can't now attribute knowledge of that to My Finance Club. It carried out the checks I'd consider were proportionate for a one loan of such modest value.

Mr S has sent to us his bank account statements from the time around May 2022 and for both accounts he had.

Although he has not explained his spending patterns to us in detail (one set shows multiple transactions abroad) I have reviewed them and I can see that there were transactions which related to betting and gaming/gambling.

But, it would have been disproportionate for My Finance Club to have reviewed his bank account statements for this loan. So, unless Mr S informed My Finance Club of these spending habits, and I've seen no evidence that he did, then it would not have known, and I would not have expected it to have known, of them.

In all the circumstances I have decided that I do not uphold Mr S's complaint.

My final decision

My final decision is that I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 25 July 2023.

Rachael Williams
Ombudsman