

complaint

Miss D has complained about two loans she took out with My Finance Club Limited trading as Monkeydosh Ltd ("MFC"). She says the loans were lent irresponsibly.

background

Miss D took four loans from MFC between May 2014 and May 2015. Loan 4 was rolled over and there is still an outstanding balance. Some of the information MFC provided about the loans is summarised below.

Loan Number	Date Borrowed	Date Closed	Amount Borrowed (£)
1	14/5/14	27/5/14	150
2	29/5/14	26/6/14	250
3	1/7/14	25/7/14	300
4	3/4/15	outstanding	350

Originally our adjudicator didn't recommend Miss D's complaint be upheld. But Miss D provided further evidence by way of her bank statements and we then recommended Miss D's complaint be upheld in part. The adjudicator felt that MFC didn't do enough when checking whether it should lend to Miss D on any of the loans. If it had done, he thought the checks would've shown loans 3 and 4 were unaffordable.

The adjudicator recommended MFC refund the interest and charges that Miss D paid on loans 3 and 4.

MFC didn't agree, so the complaint has come to me for a 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 short term lending on our website and I've used this approach to help me decide Miss D's complaint. Having done so, I've decided to uphold Miss D's complaint in part for broadly the same reasons as the adjudicator.

did MFC carry out proportionate checks?

When lending money to a consumer a lender should take proportionate steps to ensure a consumer will be able to repay what they're borrowing in a sustainable manner without it negatively impacting on their financial situation. A lender should gather enough information so that it can make an informed decision on the lending.

The guidance and rules don't set out compulsory checks but they do list a number of things a lender might wish to take into account before agreeing a loan. Any checks should be proportionate and take into account a number of things, such as how much is being lent, how long the borrowing is for and what the lender knows or is told about the borrower's circumstances.

MFC has told us about the checks that it did before lending to Miss D. It told us it completed a credit check, employment check and asked for Miss D's net monthly income each time she requested a new loan. I haven't seen this information but MFC told us the applications showed this to be between £1,226 and £1,401.

In May 2014 Miss D borrowed £150 from MFC. Although this was Miss D's first loan with MFC and the repayment was quite small, Miss D's declared monthly income of £1,226 was also quite modest. So I think reasonable checks should've also considered Miss D's regular living costs and credit commitments, in addition to her income.

Miss D then repaid this loan in accordance with the agreement and borrowed an increased amount. The repayment of around £312 was quite large in proportion to Miss D's declared income, so again I think reasonable checks should've also considered Miss D's regular living costs and credit commitments.

Loan 3 was taken out shortly after loan 2 was repaid. This represented Miss D's third borrowing request in as many months and the amount of borrowing was increasing. I think at this point MFC should've carried out a full assessment to satisfy itself of Miss D's financial situation, for example asking for bank statements.

Loan 4 was taken out around eight months after loan 3 was repaid. It was for an increased amount but Miss D's declared salary had also increased. However, the repayment under the credit agreement was still quite large in proportion to Miss D's income, so I still think MFC should have been doing more and asking Miss D about her regular living costs and credit commitments, in addition to her income.

what would proportionate checks most likely shown?

Even though I don't think that the checks MFC carried out were proportionate on any of the loans, this doesn't, on its own, mean that Miss D's complaint should be upheld. I need to establish if those checks had been done, what they would've shown MFC about Miss D's ability to sustainably repay each loan.

I don't know exactly what proportionate checks would have shown or what Miss D would have declared at the time. Miss D told MFC in March 2017 details of her expenditure when she first complained to them. She has also provided bank statements from around the time of loan 2 onwards. And I think all of this information is the best indication I have of what Miss D's financial circumstances were like at the time.

The adjudicator concluded that he didn't have enough information from Miss D's bank statements to assess the affordability of loan 1. However, that information was available for loan 2 – which was taken out the following month. On balance I think it more likely than not, that Miss D's income and normal living costs and regular financial commitments would've been similar one month earlier.

From this information, I can see Miss D had normal living costs and regular financial commitments of around £660, leaving Miss D with disposable income of around £550 per month. So I think the loan repayments of around £188 and £312 were affordable and MFC wasn't wrong to lend to Miss D on these occasions.

If MFC had carried out a full review of Miss D's finances for loan 3, for example looking at her bank statements, it's likely it would have seen:

- Her income was around what she'd declared around £1,204
- She had some regular outgoings of around £165 for petrol, food and an insurance premium
- There are a number of cash withdrawals (around £360 in total) and Miss D told us that she was paying a number of bills by cash at the time.
- Based on this and bearing in mind what she told the business her breakdown of expenses were, a figure of £320 towards rent, utilities and food from these cash withdrawals doesn't seem unreasonable
- There were a couple of unpaid direct debit transactions and Miss D was incurring account fees for these of £16
- She had a large mobile phone bill of around £240. Miss D told us at the time she was gambling using mobile payments
- The bank account was also being used for gambling

I think all of this would have indicated to MFC, with expenses of around £741, Miss D was left with disposable income of around £463.

Based on the loan repayment of around £375 – had MFC enquired further into Miss D's circumstances, I think MFC should have been concerned that this left Miss D with around £88 to meet all other expenditure not included in her usual monthly outgoings and credit commitments. This was essentially her minimum spend and didn't include unplanned or unusual expenditure. In Miss D's circumstances, I don't think this was enough and I don't think MFC should've agreed this loan.

After loan 3 was repaid, there was a gap of around eight months before loan 4 was taken out. Given this and Miss D's payment history on loan 1 to 3, I don't think MFC needed to fully review Miss D's financial circumstances. But I do think it should've asked her about her normal living expenses and regular financial commitments in addition to her income.

Miss D's declared income was around £1,404. I've thought about what Miss D was likely to have declared in expenses bearing in mind she was looking for a loan from MFC. Miss D told MFC in March 2017 her expenses came to around £950 and I can see from her bank statements that these were even higher.

Taking the figure Miss D more recently declared to MFC, after the repayment of around £438, this left Miss D with £16 which in my view was insufficient to meet all other expenditure not included in her usual monthly outgoings and credit commitments. In Miss D's circumstances, I don't think this was enough and I don't think MFC should've agreed this loan either.

Putting things right

To put things right for Miss D, MFC should:

- Refund all interest and charges applied to loans 3 and 4 inclusive; and
- Add simple interest at the rate of 8% per year on the above interest and charges from the date they were paid to the date of settlement *;and
- Remove any negative information about loans 3 and 4 inclusive from Miss D's credit file

* HM Revenue & Customs requires MFC to take off tax from this interest. MFC must give Miss D a certificate showing how much tax it's taken off if she asks for one.

If Miss D still owes MFC any of the principal balance she borrowed on her final loan, MFC may deduct this from the compensation that is due to her. To be clear, that outstanding balance should be recalculated to remove any interest and charges, but taking account of any repayments Miss D has made on that loan as though they were applied against the principal sum borrowed.

my final decision

For the above reasons, I partially uphold Miss D's complaint and direct My Finance Club Limited trading as Monkeydosh Ltd to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 26 February 2018.

Kathryn Milne
ombudsman