The complaint

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

What happened

A summary of Mr B's lending can be found below.

loan number	loan amount	agreement date	repayment date	loan term (days)
1	£400.00	19/11/2020	27/11/2020	38
2	£400.00	12/12/2020	27/01/2021	38
3	£300.00	14/03/2021	27/04/2021	38
4	£200.00	17/05/2021	27/05/2021	38
gap in lending				
5	£400.00	22/04/2022	05/05/2022	38
6	£200.00	13/05/2022	27/05/2022	14
7	£200.00	12/07/2022	21/08/2022	30
8	£200.00	05/09/2022	27/10/2022	23

After Mr B made the complaint, MFC responded and explained why it wasn't going to uphold his complaint. Unhappy with the response, Mr B's representative referred the complaint to the Financial Ombudsman Service.

The complaint was then reviewed by an investigator, and she didn't uphold the complaint because she thought the checks MFC carried out showed it that Mr B should be able to afford his repayments. She also said as there was a break in lending of around a year between loans 4 and 5 than Mr B's lending relationship was spread over two lending chains and as a result MFC didn't need to carry out further checks.

Mr B's representative didn't agree with the outcome saying while it accepted there were two distinct periods of lending, there was also a considerable amount of adverse credit file data including missed payments and Mr B being in excess of his credit limits.

As no agreement could be 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 B 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 B'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 B. These factors include:

- Mr B 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 B 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 B 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 B. The investigator didn't consider this applied in Mr B's case and I would agree, given the amounts borrowed across the two chains of lending.

MFC was required to establish whether Mr B 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 B 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 B's complaint.

Loans 1 - 4

Mr B declared he worked full time and he earned between £2,800 and £3,168 per month. It's also possible**,** Mr B's income was electronically verified (as it was for the later loans) through a third-party report. I don't have a copy of the results for these loans. But whether the income was or wasn't electronically verified doesn't change the outcome I have reached because for the first loans of a new lending chain it would've been reasonable for MFC to have relied solely on the information it was provided.

In terms of monthly expenditure, Mr B provided details about his expenditure across several different areas such as, utilities, 'other', food and other credit commitments– to name a few. He also declared to MFC that he didn't have any dependants and he lived at home with parents.

MFC says Mr B's outgoings came to £1,706 for loan 1 and then decreased for each loan down to £1,181 for loan four. Therefore, based on the information it had to hand, these loans looked affordable as Mr B had sufficient disposable income.

Before each loan, MFC also carried out a credit search and it has 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.

I am satisfied that the credit check results for all loans in this chain wouldn't have been a concern for MFC. It knew before approving these loas that Mr B had credit cards, a hire purchase agreement, communication contract, current accounts, mail order and loan accounts. But these were all up to date with no adverse payment information being recorded.

Mr B's representative says during these loans Mr B was over his credit limit and had missed payment markers recorded. However, that information wasn't contained within the results MFC received and so it didn't know about them. The credit check results received by MFC showed no adverse payment information. The other evidence MFC had available didn't suggest that there were defaults, missed payments or that Mr B was struggling to repay his existing creditors. MFC could only make its decision based on the information it was provided with.

Overall, given the decreasing amounts borrowed, what Mr B declared about his circumstances and the fact these four loans were taken over a period of six months. It was reasonable for MFC to have relied on the information that Mr B provided about his income and expenditure and so the checks MFC carried out were proportionate and showed Mr B should be able to afford the repayments. There also wasn't anything else to suggest that these loans would either be unaffordable or unsustainable for him.

So, for these reasons, I do not uphold Mr B's complaint about MFC's decision to provide these loans.

Loans 5 – 8

Mr B didn't return for new borrowing (loan 5) for around a year after he had successfully repaid loan 4. This gap in lending is sufficient for MFC to have treated Mr B's application afresh. This means, although it was Mr B's fifth loan MFC was entitled to treat this as the first loan of a new lending chain. I've kept this in mind when reviewing this chain of lending and this does have implications for what a proportionate check may be.

The same sort of checks were conducted by MFC before each loan in this lending chain. Mr B declared for these loans a monthly income of £1,800. MFC says Mr B's income was electronically verified through a third-party report – which suggested the income he had declared was likely to be accurate.

Mr B declared monthly living costs of between £1,130 and £1,396 – which was more than enough to afford the largest contractual repayment of around £441 for loan 5. These loans looked affordable.

As before, MFC also carried out credit searches and it's provided the results that it was given. The same caveats apply to the results MFC received as they did for loans 1 – 4.

I am satisfied that overall, the credit check results wouldn't have been a concern for MFC. For loans 6 – 8 there wasn't any adverse payment information being recorded and there wasn't any indication that Mr B was a repeat user of loans or was having problems managing his existing commitments.

MFC was told about a credit card that had been in arrears a few months before it advanced loan 5. However, the account was brought up to date and was reporting as such when the loan was advanced. In these circumstances, I think it was just about been reasonable for MFC to have not been too concerned because the account was now up to date and there weren't any other indications that Mr B was struggling to repay his other creditors.

There wasn't anything else from the credit reports that would've prompted MFC to undertake more in-depth checks or to have declined Mr B's application for credit.

Finally, for some of the loans – such as loan 7, Mr B extended the loan term because he told MFC he had inputted the wrong repayment date. Given there weren't any other issues with how the loans were repaid, and there was no indication from the proportionate checks to show that Mr B was likely having financial difficulties. I think it was reasonable to grant the extensions but also this wouldn't have led MFC to have carried out further checks.

For the reasons outlined above, I am also not upholding Mr B's complaint about his second chain of lending and I am therefore not upholding Mr B's complaint.

My final decision

For the reasons set out above, I'm not upholding Mr B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 22 March 2024.

Robert Walker
Ombudsman