Financial Ombudsman Service

## The complaint

Mr B says Brent Shrine Credit Union Limited, trading as My Community Bank, irresponsibly lent to him.

## What happened

Mr B took out a 48-month loan for £10,000 on 4 September 2021. The monthly repayments were £251.14 and the total repayable was £12,381.45. Mr B repaid the loan in full on 1 March 2022.

Mr B says at no point did Brent Shrine CU check the affordability of the loan for him. He already had other debts when he applied. This impacted his relationship, his mental health and he asks for the interest and charges he paid to be refunded, plus compensation.

Our investigator did not uphold the complaint. He said Brent Shrine CU's checks were not proportionate but it did not seem better checks would have shown Mr B was unlikely to be able to sustainably repay the loan.

Mr B disagreed and asked for an ombudsman's review. He said as the main earner he was struggling to cover all bills and manage his addiction to excess spending, including gambling.

## 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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The rules and regulations when Brent Shrine CU arranged the loan for Mr B required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So Brent Shrine CU had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr B. In other words, it wasn't enough for Brent Shrine CU to simply think about the likelihood of it getting its money back, it had to consider the impact of the repayments on Mr B.
Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of credit they have applied for. In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the lower a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the longer the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether Brent Shrine CU did what it needed to before agreeing to lend to Mr B. So to reach my conclusion I have considered the following questions:

- did Brent Shrine CU complete reasonable and proportionate checks when assessing Mr B's loan application to satisfy itself that he would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did Brent Shrine CU make a fair lending decision?
- did Brent Shrine CU act unfairly or unreasonably in some other way?

I can see Brent Shrine CU asked for some information from Mr B before it approved the loan. It asked for details of his income and checked this with a third party. It also checked his credit file to understand his credit history and existing credit commitments. From these checks combined Brent Shrine CU concluded Mr B would be able to sustainably afford to repay the loan.

I don't think these checks were proportionate in the circumstances of this case. Mr B was agreeing to repay a relatively large loan over a four-year period, so I think Brent Shrine CU needed a fuller understanding of his financial circumstances before concluding the loan was sustainably affordable.

I have looked at Mr B's bank statements from the three months prior to his application. I am not saying Brent Shrine CU had to do this but it's one way it could have better understood Mr B's finances. They are for Mr B's personal account but he has confirmed the high-value transfers out were to his joint account to cover his mortgage and bills. So I am satisfied they fairly represent his financial position. There are a lot of cash withdrawals so I cannot know the nature of a significant part of Mr B's expenditure, but overall I don't think they conclusively show the loan was most likely to not be sustainably unaffordable for him. I'll explain why.

Mr B had at times used his overdraft facility but he was not persistently reliant on it. There were none of the other typical signs of financial stress such as payday loans or returned direct debit payments. There was frequent discretionary spend. And Brent Shrine CU knew from the credit check it completed that Mr B had no adverse data on his records, was not over-indebted, and was up-to-date on all his accounts.

Overall, I don't think Brent Shrine CU ought to have made a different lending decision had it completed better checks.

It follows I don't think Brent Shrine CU was wrong to lend to Mr B. And I haven't seen any evidence that it acted unfairly towards him in some other way.

## My final decision

I am 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 6 January 2023.

Rebecca Connelley
**Ombudsman**