DRN-4002620

The complaint

Mr T complains that West Sussex and Surrey Credit Union Limited trading as Boom! Credit Union ("BCU") irresponsibly gave him a loan he couldn't afford to repay.

What happened

In May 2018, Mr T applied for a loan of £4,500 with BCU for the purpose of consolidating existing debts. BCU assessed Mr T's application and said it wouldn't be able to offer him a consolidation loan of £4,500 because it wouldn't sufficiently reduce his outgoings and the new loan would be unaffordable.

A series of email exchanges followed between Mr T and BCU as well as a face to face meeting to discuss the possibility of offering a larger loan in order to consolidate more of his debts and therefore reduce his monthly outgoings. Following a review of Mr T's financial circumstances, which included reviewing his recent bank statements, BCU offered Mr T a loan of £10,000. It said this would clear his overdraft and repay a number of his creditors reducing his monthly debt repayments by £800. He would be required to pay BCU £385 per month, meaning an overall saving of £415 per month and at a lower interest rate than most of his existing borrowing.

Mr T entered into an unregulated cash loan with BCU borrowing £10,000 over a term of 48 months. He was required to pay 47 monthly repayments of £320, followed by a final payment of £176.21. In addition to the payment of £320, BCU said Mr T was required to pay a further £65 per month into a separate savings pot with BCU. The purpose of this was that Mr T would be able to use the savings to repay the loan early and therefore pay less interest. Mr T repaid the loan early in June 2021 with the help of these savings funds.

In October 2022, Mr T complained to BCU to say that the agreement had been unaffordable from the outset and should not have been given to him. He said the loan had made his position worse and he'd needed to take further high cost borrowing the month after the BCU loan. He said that at the time of taking out the loan he was in a debt management plan and BCU had gone against its own lending policy by giving him the loan in these circumstances.

BCU responded to say that it didn't think it had acted unfairly. It said that it had completed a thorough affordability review with him which included an agreement from Mr T that he would use the loan proceeds to pay off his existing debts and that he would change his spending behaviours in order to better manage his finances. It said that the review it completed demonstrated that the BCU loan would place Mr T in a better financial position.

Our investigator didn't recommend the complaint be upheld. He was satisfied that BCU had completed reasonable affordability checks and that it made a fair lending decision based on the information and evidence it had gathered.

Mr T didn't agree, so the complaint has been passed to me for a final 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 explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr T's complaint. I accept that Mr T's agreement was unregulated and so BCU's obligations aren't exactly the same as those for most lenders. Specifically, as it is a Credit Union, BCU's specialist sourcebook is the Credit Unions sourcebook rather than the Consumer Credit Sourcebook as it wasn't carrying out credit-related regulated activities when providing the loan to Mr T.

However, as a firm authorised by the Financial Conduct Authority, I consider it fair and reasonable to expect BCU to have carried out reasonable enquiries into Mr T's circumstances to check that he'd be able to make the payments to the loan. I'd also only expect it to have proceeded in the event that those reasonable enquiries demonstrated that Mr T could make the payments.

As part of the application for the loan, Mr T said he was employed and earning £2,850 per month. He also declared that his living expenses (including his mortgage) were around £700 per month and his existing loan commitments were £800 per month and his credit card repayments around £300 per month.

BCU didn't accept Mr T's initial application, but as I've said above, it made further enquiries with him. It looked into the possibility of granting him a loan of £10,000 instead of the £4,500 requested. In some circumstances it might be concerning that a larger loan was being considered when a lower one was deemed unaffordable. However, in the specific circumstances of this case, it's clear the reason for this was to reduce Mr T's overall outgoings. So, I don't think BCU acted unfairly or unreasonably in considering this approach.

The purpose of the loan was for debt consolidation and in the process reduce Mr T's regular outgoings on debt repayments. I think the further enquiries BCU made because of this were reasonable. It reviewed copies of Mr T's bank statements to not only verify what he had said, but to establish whether the consolidation loan would likely improve his financial position.

From reviewing Mr T's bank statements its clear there was a large amount of non-essential expenditure. It appears BCU noticed this too and in email exchanges with Mr T told him that "*a major change of spending / budgeting would be needed*" if he wanted to improve his financial situation even after taking out the BCU loan. BCU also suggested using the loan proceeds to clear his overdraft in full as Mr T was being charged around £90 to £100 per month in overdraft charges. Mr T replied to BCU to say he agreed these were good suggestions and that he "*would change my spending and budgeting alongside this*."

BCU's calculations that the loan would save Mr T around £415 per month (plus up to an additional £100 in monthly overdraft charges) appears to me to have been broadly accurate. This is based on the loans and repayments Mr T and BCU identified as ones which the consolidation loan would repay. So, it seems the loan would likely have placed Mr T in a better financial position, if he used the funds in the way he said he would.

Taking into account what BCU could see about Mr T's income and his committed essential expenditure, this appears to have left Mr T with sufficient disposable income each month to meet all of his commitments and the new loan. I therefore don't think BCU made an unfair lending decision when granting this loan to him.

I note Mr T says BCU went against its own policy of lending to people in a debt management plan. However, whether that's right or not doesn't impact what I think is a fair outcome in this case. This is because I'm satisfied, based on the available evidence, that the loan did appear affordable to Mr T, and I think BCU completed reasonable and detailed enquiries about his ability to repay before approving the loan. Further, I'm not persuaded in any event that the granting of this loan caused Mr T a loss.

Mr T says that the loan made his financial situation worse. However, from what I've seen, it appears he didn't use the BCU loan to repay all of the existing debts he told BCU that would be repaid. In any event, from what BCU could see during the application process, this loan would improve Mr T's overall financial position if he consolidated his debts in the way he had said he would, and I've not seen anything to persuade me otherwise.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 14 September 2023.

Tero Hiltunen
Ombudsman