

Complaint

Mr H has complained about a loan Brent Shrine Credit Union Limited trading as My Community Bank ("MCB") provided to him. He says that he had historic issues with debt and gambling which would have been apparent had sufficient checks for a loan of such a large amount been completed.

Background

MCB provided Mr H with a loan for £15,000.00 in June 2021. This loan had an APR of 15.99% and had a 48-month term. This meant that the total amount to be repaid of £20,505.71, which included interest, fees and charges of £5,505.71, was due to be repaid in 47 monthly instalments of just under £416.93.

One of our investigators reviewed what Mr H and MCB had told us. And she thought that MCB hadn't done anything wrong or treated Mr H unfairly. So she didn't recommend Mr H's complaint be upheld. Mr H disagreed and asked for an ombudsman to look at his complaint.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having carefully considered everything, I've decided not to uphold Mr H's complaint. I'll explain why in a little more detail.

MCB needed to make sure that it acted fairly and reasonably towards Mr H. As part of this, it needed to take reasonable steps to ensure that the loan was affordable. In practice, what this means is MCB needed to carry out proportionate checks to be able to have a reasonable understanding of whether Mr H could afford to make his monthly repayments before providing this loan.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

MCB says it agreed to Mr H's application after he provided details of his income. It says it also carried out a credit check to assess Mr H's existing indebtedness and used statistical data to get an idea of Mr H's regular living expenses. In its view, all of this information showed Mr H could afford to make the repayments he was committing to. On the other hand, Mr H has said he had historic issues with debt and gambling which would have been apparent had sufficient checks for a loan of such a large amount been completed.

I've carefully thought about what Mr H and MCB have said.

The first thing for me to say is that MCB not only asked Mr H for details about his income, it also carried out a credit check to assess Mr H's indebtedness.

MCB's credit searches also did show that Mr H had some existing debts. But it's fair to say that these weren't excessive. Furthermore, while Mr H says that other lenders have asked him for copies of payslips and bank statements I don't think that MCB not asking him for this necessarily means that Mr H's complaint should be upheld.

Each lender will have its own criteria for determining what it wishes to see from a customer before lending. And as I've explained, the more important thing is for a lender to get a reasonable understanding of a prospective borrower's ability to repay. Obtaining bank statements isn't the only way for a lender to do this.

In any event, as part of its checks I would have expected MCB to have had a reasonable understanding about Mr H's regular living expenses as well as his income and existing credit commitments. The information Mr H has provided does appear to show that when his committed regular living expenses and existing credit commitments were deducted from his monthly income, he did have the funds, at the time at least, to sustainably make the repayments for this loan.

I accept that the real reason for Mr H's inability to make his payments to this agreement wasn't due to his existing credit commitments or his living expenses. It was because he was gambling. But this isn't readily apparent when Mr H's bank statements are considered. I appreciate that there are cash withdrawals and cash deposits going in and out of Mr H's account. However, I don't think that this necessarily means that MCB ought reasonably to have concluded that Mr H was gambling.

Furthermore, what I need to think about here is what MCB needed to have done in order for its checks to have been fair and reasonable – in other words, what were Mr H's actual regular living expenses (bearing in his credit commitments were already validated by the credit search)? – given this was a first loan Mr H was taking out with MCB.

Bearing in mind checking bank statements wasn't the only way for MCB to have found out more about Mr H's actual living costs – it could have obtained copies of bills or other evidence of payments etc – I don't think that fair and reasonable checks would necessarily have highlighted Mr H's cash withdrawals in the first place. So I don't think that MCB could reasonably be expected to have known about the nature and extent of Mr H's additional spending.

I'm sorry to hear that Mr H experienced difficulty making the payments. But the key here is that it's only fair and reasonable for me to uphold a complaint in circumstances where a lender did something wrong. And I don't think that MCB could possibly be expected to have known that the payments to this agreement were unaffordable, bearing in mind that reasonable and proportionate checks are unlikely to have shown that this was the case.

So overall I don't think that MCB treated Mr H unfairly or unreasonably when providing him with his loan. And I'm not upholding Mr H's complaint. I appreciate this will be very disappointing for Mr H - particularly as he feels strongly about this complaint as other lenders asked him for more information. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mr H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 4 December 2023.

Jeshen Narayanan
Ombudsman