

The complaint

Mr L complains that Brent Shrine Credit Union Limited trading as My Community Bank was irresponsible in its lending to him.

What happened

Mr L was provided with a £15,000 loan by My Community Bank in July 2022. The loan was repayable over 36 months with monthly repayments of around £559.

Mr L says that My Community Bank didn't carry out adequate checks before lending to him and that had it done so it would have realised that the loan was equivalent to a large portion of his salary and that he had other debts and a history of indebtedness. Mr L says that he couldn't afford his living expenses without borrowing further due to the high cost of his loan repayments.

My Community Bank issued a final response letter dated 28 September 2023 not upholding Mr L's complaint. It said that as part of the loan application process it conducted a creditworthiness and affordability assessment. It said that Mr L's credit check showed he had no insolvency or delinquency records and no recent payday loans. It verified his declared annual income of £49,500 and used third party data to estimate his general living costs. It said that based on its checks Mr L had enough disposable income to make the repayments on the loan and its indebtedness check didn't suggest the loan to be unsustainable.

Our investigator upheld this complaint. She noted that My Community Bank's checks showed that Mr L had an existing debt to income ratio of around 69% which she thought raised concerns about the sustainability of any further loan repayments. She looked at the information gained through My Community Bank's income and expenditure checks and said that considering the full income and expenditure this raised concerns that the loan repayments weren't sustainably affordable. She also noted that Mr L's credit report showed he was already over indebted before the My Community Bank loan was provided.

My Community Bank didn't agree with our investigator's affordability assessment and said it wasn't industry standard to take into account all income and expenditure as this wouldn't give a realistic representation of affordability. It said its bespoke affordability assessment took into account that the purpose of the loan was debt consolidation. It believed the loan it was providing was a more affordable product for Mr L than the debt he was consolidating.

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 considering complaints about unaffordable and irresponsible lending is set out on our website. I've had this approach in mind when considering what's fair and reasonable in the circumstances of this complaint.

In summary, before providing credit, lenders need to complete reasonable and proportionate

affordability checks. There isn't a set list of checks a lender is required to carry out, it just needs to ensure the checks are proportionate when considering things like: the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances.

Before providing the loan, My Community Bank gathered information about Mr L's income and expenditure as well as carrying out a credit check. I have considered whether these checks were proportionate given the lending provided and also whether the information received meant it was reasonable for My Community Bank to consider the lending to Mr L to be sustainably affordable.

My Community Bank used data from Mr L's bank account to verify his income. It assessed Mr L's income for the three months leading up to his application and this gave an average monthly income of around £2,741. I find it was reasonable that Mr L's income was verified and that this number was relied on.

My Community Bank also used bank account data to assess Mr L's expenses. I think it was necessary to carry out a full assessment of Mr L's expenses to ensure the lending was affordable and I have looked at the information My Community Bank received alongside the information that Mr L has provided. The information received showed Mr L was paying rent (£750), utilities (£59), travel (£152), insurance (£190), and gym membership (£58). This resulted in average monthly expenses before credit commitments and general spending on costs such as food and other everyday items of around £1,210.

Mr L's monthly credit commitments were recorded as including car finance, credit cards and personal loans. At the time of Mr L's loan application he had a number of credit cards with balances totalling over £10,000. He was maintaining his repayments and the inclusion of monthly repayments of around £550 I think was reasonable. He also had monthly loan repayments and car finance totalling around £532. This gives total credit commitments before the My Community Bank loan of around £1,082. Combining Mr L's existing credit commitments and monthly expenses (excluding food and other general living costs) gave him a disposable monthly income of around £450. This is less than the repayments due under the My Community Bank loan.

My Community Bank has said that the loan was for debt consolidation. We have asked for further details about this, but these haven't been provided. I can see from the credit report Mr L provided that following the provision of the loan he did repay some of his credit cards. However, these balances soon returned meaning that Mr L was then repaying both the loan and the credit card balances.

On balance, while I note the comment about the purpose of the loan, in this case I find that the size of the repayments combined with Mr L's existing credit commitments should have raised concerns that the lending wasn't sustainably affordable. Therefore, I uphold this complaint.

Putting things right

Brent Shrine Credit Union Limited trading as My Community Bank should:

- add up the total amount of money Mr L received as a result of having been given the loan. The repayments Mr L made should be deducted from this amount.
 - a) If this results in Mr L having paid more than he received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement).^{*} My Community Bank should

also remove all adverse information regarding the loan from Mr L's credit file.

b) If any capital balance remains outstanding, then My Community Bank should attempt to arrange an affordable and suitable payment plan with Mr L. Once Mr L has cleared the balance, any adverse information in relation to the loan should be removed from his credit file.

*HM Revenue & Customs requires My Community Bank to take off tax from this interest. My Community Bank must give Mr L a certificate showing how much tax it's taken off if he asks for one.

My final decision

My final decision is that I uphold this complaint. Brent Shrine Credit Union Limited trading as My Community Bank should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 19 April 2024.

Jane Archer
Ombudsman