

## **The complaint**

Mr M complains that Brent Shrine Credit Union Limited trading as My Community Bank (MCB) lent irresponsibly when it approved a loan application he made.

## **What happened**

In May 2023 Mr M applied for a £3,000 loan with MCB. In his application, Mr M said he was renting at £300 a month and employed with an income of £44,495 a year. MCB says it carried out a credit search and found Mr M owed around 77% of his annual income to other unsecured creditors – around £34,250. MCB noted there was no adverse information like recent defaults or County Court Judgements on Mr M's credit file and no recent arrears. MCB says Mr M's repayments towards his existing debts took around 28% of his income each month.

MCB applied estimated living costs of £814 to the application and verified Mr M's income via the credit reference agencies which looked at regular deposits made into his bank account. MCB also took Mr M's rent of £300 into consideration. MCB says the loan application was considered against its lending criteria and approved with monthly repayments of £210.48.

Last summer, Mr M complained that MCB had lent irresponsibly. Mr M's explained that at the time of borrowing, he had a problem with gambling and was borrowing money for that purpose. Mr M also said he was using short term loans for gambling purposes. MCB issued a final response on 11 July 2023 but didn't uphold Mr M's case. MCB said it had carried out the relevant checks before approving Mr M's loan.

An investigator at this service upheld Mr M's complaint and said that the level of repayments Mr M was making each month when compared against his income should've indicated he was over indebted and caused MCB to carry out better checks.

The investigator looked at Mr M's bank statements and found evidence of short term loans and extensive gambling in the months before the loan was approved. The investigator thought better checks would've led MCB to find Mr M was unlikely to sustainably afford further repayments and decline his application. Mr M accepted but MCB initially said it disagreed with the investigator's view. When no response to the investigator's follow up emails with MCB was received, Mr M's case was referred for appeal. As a result, Mr M's case has been passed to me to make 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.

Before agreeing to lend, the rules say MCB had to complete reasonable and proportionate checks to ensure Mr M could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

As I've noted above, the investigator found that the cost of servicing Mr M's existing debts took around 28% of his income each month. The investigator thought that payments to service their existing credit commitments at that level indicated Mr M may have become overly reliant on credit to make ends meet. I think that's a reasonable point. Given Mr M owed around £34,250 in unsecured debt at the time of his application and was using a substantial amount of his income each month to maintain the payments, I think MCB should've considered carefully whether he could afford to sustainably make further repayments.

I agree with the investigator that there were grounds for MCB to have gone further and complete a more comprehensive level of checks concerning Mr M's ability to sustainably make the repayments. As noted above, there's no set list of checks a lender has to complete. But one option would've been to review the borrower's bank statements to get a better picture of their circumstances and finances. Mr M's forwarded us his bank statements for the months preceding his loan application to MCB.

Whilst I note that MCB says Mr M didn't have any payday loans or short term lending at the time and had no new credit searches, his bank statements paint a different picture. I can see credits from various short term lenders in the months before Mr M's application was made. But, more importantly, I can see that Mr M was gambling at a significant rate – in line with what he's told us. For instance, in April 2023 Mr M made payments totalling over £3,900 to gambling websites from his bank account.

In my view, a review of Mr M's bank statements would've quickly led MCB to conclude that further borrowing would only place additional strain on him. And I think MCB would've found Mr M was highly unlikely to be able to sustainably afford a further repayment of £210.48 in addition to his existing commitments and living expenses. I also think MCB would've found Mr M was gambling at an unsustainable rate.

Based on the available information, I'm satisfied MCB should've carried out more comprehensive checks. And I'm satisfied that if it had, MCB would most likely have taken the decision to decline Mr M's loan application in May 2023. So I'm going to uphold Mr M's complaint and direct MCB to refund all interest fees and charges applied to his loan from inception.

### **My final decision**

My decision is that I uphold Mr M's complaint and direct Brent Shrine Credit Union Limited trading as My Community Bank to settle as follows:

- Refund and remove all interest, fees and charges applied to the loan from inception and treat any repayments made to date as if they'd been repayments towards the principal.

AND

- If this results in Mr M having made overpayments, MCB should refund these overpayments with 8% simple interest calculated on them from the date made to the date of settlement

OR

- If an outstanding balance remains once all interest, fees and charges have been refunded to the loan and capital repayments recalculated, MCB should contact Mr M with a view to arranging an affordable repayment plan
- Once the balance has been cleared, all adverse information relating to the loan should be removed from Mr M's credit file by MCB.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 24 April 2024.

Marco Manente  
**Ombudsman**