

The complaint

Mr B complains that Brent Shrine Credit Union Limited trading as My Community Bank was irresponsible in its lending to him. He wants all interest fees and charges removed from his loan so that he is only liable for repaying the amount borrowed.

What happened

Mr B was provided with a £10,000 loan in September 2023. The loan was repayable over 60 months with monthly repayments of around £331.

Mr B says that adequate checks weren't carried out before the lending was provided and that he had a gambling addiction and wasn't in a fit mental state to take out the loan. He says that had reasonable checks been carried out My Community Bank would have seen he had taken out multiple debts in short succession and was behind on his repayments and that he shouldn't be provided with further credit. Mr B says the repayments are unaffordable and requested that the interest and charges be waived so he is only required to repay the amount he borrowed.

My Community Bank issued a final response dated 8 December 2023. It said that it carried out creditworthiness and affordability assessments before providing the loan as well as a credit check. It said Mr B's affordability was within its parameters and there were no insolvencies or delinquency records and no recent payday loans. It said it verified Mr B's declared income of £45,000 with a credit reference agency and used third party data to estimate his general expenditure. It said its checks supported the lending being affordable. It noted that Mr B had provided evidence that he suffered from a gambling addiction but said it wasn't aware of this at the time of his loan application.

Mr B wasn't satisfied with My Community Bank's response and referred his complaint to this service.

Our investigator upheld this complaint. He noted the size and term of the loan and thought that My Community Bank should have carried out further checks before lending. He said further checks would have shown that Mr B had recently taken out a personal loan and a credit card with a £5,600 limit which he had utilised to near its limit in the first month. Noting how much debt Mr B had taken on within a few months of his loan application he thought further questions should have been asked about why Mr B needed further credit. He noted that the loan was said to be used for debt consolidation but also that Mr B had only recently taken out the debt he was looking to consolidate.

Our investigator thought that had further checks been carried out My Community Bank would have seen that Mr B was spending large amounts on gambling and that by providing the loan it was increasing the risk of financial harm to Mr B.

My Community Bank didn't agree with our investigator's view. It explained the increase in Mr B's debt in four months wasn't a high change and that its policies allowed for a higher overall unsecured debt balance. It said its affordability calculation was a reliable way of assessing the ability of Mr B to repay his borrowing and that as the loan was for debt

consolidation, it was Mr B's responsibility to use it for its intended purpose. It said Mr B's application passed all of its automated criteria and so it didn't accept that conducting further checks was proportionate or reasonable.

My provisional conclusions

I issued a provisional decision on this complaint, the content of which is set out below.

Mr B was provided with a £10,000 loan repayable over 60 months. Before providing the loan, My Community Bank gathered information about Mr B's employment and verified his income with a credit reference agency. It carried out a credit check and used this information alongside third party data to estimate his expenses. Having looked at the credit check results these didn't raise concerns that Mr B was struggling to manage his commitments at the time, but it did show that he had taken on another loan for around £5,200 within the previous three months. While the results showed Mr B had no defaults or county court judgments it didn't provide detailed information about his credit history. Given the size and term of the loan and noting that Mr B had recently taken on other debt, I think My Community Bank should have carried out further checks to fully understand Mr B's financial circumstances to ensure the lending was sustainably affordable for him.

While My Community Bank wasn't required to request copies of Mr B's bank statements, as I think it needed to fully understand his financial circumstances, this meant it needed to get an understanding of his specific expenses as well as any other information that had a bearing on his financial circumstances. Mr B has provided copies of his bank statements and a credit report, and I have considered this information to assess what My Community Bank would likely have identified had more thorough checks been undertaken.

Looking through Mr B's credit report this showed that additional to the loan he took out in June 2023 for £5,295, he also took out a credit card in May 2023 with a credit limit of £5,600. He used the majority of his credit limit in the first month which could raise concerns about whether Mr B was becoming reliant on increasing amounts of credit. That said, I note Mr B said the new loan was for debt consolidation.

I have looked through the additional information that Mr B has provided to assess what I think would most likely have been identified had further checks taken place. Mr B's income was verified and based on an annual income of £45,000 this gives a monthly income of around £2,900. Having looked through Mr B's statements these show him receiving a monthly income of around £2,451 and a higher income in June 2023. So, based on the information, I do not find an income of around £2,900 was unreasonable to use in the assessment.

Mr B has explained that he and his partner have a joint account which pays for certain joint costs. Mr B's income is paid into the joint account, and he has explained that this is then transferred out (to a savings account) before the majority is transferred back into the joint account to cover the costs. Benefits of around £160 are also paid into this account. The mortgage and other household costs such as utilities, insurance and council tax are paid from the joint account. Mr B has said that these costs are covered by both his income and that of his partner and so I find that it would be reasonable for My Community Bank to split these costs.

My Community Bank recorded Mr B's mortgage costs as £900 which is just over 50% of the mortgage cost which I find reasonable. The other household costs paid from the joint account totalled around £1,100 a month and taking 50% of these as Mr B's share of the costs would give around £555 in costs. Mr B's credit commitments were identified by My Community Bank's credit search as around £408 a month. The additional credit report

provided by Mr B suggests these to be slightly higher at around £500. Taking this into account resulted in Mr B's total costs before general living expenses being around £1,955. The My Community Bank loan repayments were around £331 a month and as Mr B said the loan was for debt consolidation it would be reasonable to think these costs would, at least in part, reduce Mr B's other credit commitments. Taking this all into account, I do not find that further questions about Mr B's income and expenses would have suggested the new loan to have been unaffordable.

Mr B has explained that he was gambling at the time the loan was provided. While I do not underestimate the impact this would have had on Mr B, he didn't make My Community Bank aware of this at the time. I have considered whether I think that further checks would have alerted My Community Bank to Mr B's gambling and in this case, I do not think they would. I say this because I think it likely that further checks would have focused on Mr B's income and expenses which would have been evidenced through a different account to the one he was using for gambling. And I have nothing to suggest he would have provided the information about his gambling separately at that time.

In conclusion, given the size and term of the loan and noting that Mr B had recently taken on other debt, I think My Community Bank should have carried out a thorough assessment of Mr B's financial circumstances, specifically understanding his expenses, before providing the loan. However, had it done this, I do not find that the further questions would have shown the new lending to have been unaffordable, particularly noting that the intended purpose was debt consolidation. While I note that Mr B was gambling at the time, My Community Bank wasn't aware of this, and I do not find in this case that the further checks would necessarily have identified this. Therefore, I do not find I can uphold this complaint.

Mr B didn't agree with my provisional decision. Mr B referred to the loan he took out shortly before the My Community Bank lending and said that the total amount repayable on this was around £8,000 and that this was paid into a different account to the one his salary is paid into. He also noted the credit card he took out at this time and that he had utilised most of the £5,600 credit limit within the first month. He said My Community Bank should have queried why he hadn't made payment to his existing arrangements and that this should have raised concerns about his ability to sustainably afford further debt. He said it should have been clear that his debt was getting out of control.

Mr B said that at no point in the application process was he asked about possible gambling issues and that my provisional decision underestimated his mental capabilities at the time and his ability to make good financial decisions. He said that had further checks been carried out these would have shown that his income was transferred to another account and that his credit commitments weren't paid from his main account and so he should have been asked about other accounts at which point his gambling would have been identified.

Mr B noted our investigator's comment that although the loan was said to be used for debt consolidation it was made available to Mr B to spend as he wished and Mr B said that had the loan been directed to repay other debts this would have at least removed two other debts rather than the new loan increasing his overall indebtedness. He said that the Financial Conduct Authority (FCA) website said that a lender's assessment must include considering the customer's financial wellbeing – that is, the potential for the commitments under the credit agreement to have an adverse impact on the customer's financial situation and establish credit worthiness and ensure the customer can afford the repayments of any lending over the term of the agreement. Mr B said that if My Community Bank deemed him to be a responsible customer with no credit issues, then why wouldn't it question why he would take on a loan at such a high rate of interest rather than use a mainstream lender to consolidate his debts. He said the My Community Bank loan was double the size of any previous loan he had taken out and that he hadn't been aware of the total cost of the

borrowing due to his mental state at the time. He said his credit history and commitments should have raised concerns about how affordable any new lending would be. Mr B also noted that as well as his other costs he was also contributing to the cost of nursery fees and after school clubs.

In conclusion, Mr B said that My Community Bank should have taken more care before providing the loan and that as this didn't happen, the lending provided wasn't responsible.

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 general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

I have considered Mr B's comments in response to my provisional decision and reviewed his case again in light of these. However, having done so my conclusions haven't changed.

Mr B has said that further checks should have been undertaken before My Community Bank lent to him. I agree with this. I set out in my provisional decision that while the results of Mr B's credit check didn't show any defaults or county court judgments it didn't provide detailed information about his credit history. And that given the size and term of the loan and noting that Mr B had recently taken on other debt, I thought My Community Bank should have carried out further checks to fully understand Mr B's financial circumstances to ensure the lending was sustainably affordable for him.

However, while I thought further checks were required, I didn't find that had these happened they would have shown the lending to be irresponsible.

I note the reference Mr B has made to regulations and I have taken all relevant rules and regulations into account, but my decision is based on what I consider fair and reasonable given the individual circumstances of the complaint. In this case, I assessed the affordability of the My Community Bank lending based on Mr B's income and expenses. I noted he shared the mortgage and household costs with his partner, and I included the amount I thought would likely have been identified had questions been asked about this. I note Mr B's comment about other costs he was responsible for but based on the evidence I have seen, I think that further questions about Mr B's expenses wouldn't have suggested the My Community Bank loan repayments to have been unaffordable. I also note Mr B's comment about not using the loan for debt consolidation but as this was the purpose he stated, I think it reasonable for this to be taken into account.

Mr B was spending large amounts on gambling. While I understand this will have affected his mental state and that he wasn't making good financial decisions at the time, I have to consider whether or not My Community Bank should have been reasonably aware of this. Mr B didn't tell My Community Bank about his gambling, and I do not find I have anything to suggest it should have been aware of this from the information it gathered. I also think that had further questions been asked about Mr B's expenses these wouldn't have identified his gambling as his household costs were paid through a different account to the one he used

for gambling. I note Mr B's comment about his credit commitments not being paid from the joint account, but this information was received through his credit file which I find reasonable. Therefore, based on the information I have seen, I do not find, on balance, that My Community Bank would likely have identified Mr B's gambling had further questions been asked about his expenses.

In conclusion, while I can understand why Mr B doesn't agree with my decision, in this case, I do not find that further checks would have shown Mr B's gambling and I do not think they would have suggested the lending to be unaffordable. Because of this I do not uphold this complaint.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 22 July 2024.

Jane Archer
Ombudsman