DRN-5346650

The complaint

Mrs M says Brent Shrine Credit Union Limited, trading as My Community Bank (MCB), irresponsibly lent to her.

What happened

Mrs M took out a 24-month loan for £4,000 on 30 September 2019. The monthly repayments were £229.75 and the total repayable was £5,518.45.

Mrs M says she had a high number of payday loans and gambling transactions on her bank statements. She shared a statement from the month prior to this loan being taken out to show the extent of her and her partner's borrowing and gambling. She says this should have been picked up when she applied for this loan.

MCB says it carried out proportionate checks that showed the loan was affordable for Mrs M.

Our investigator did not uphold the complaint. He said MCB's checks were proportionate and nothing in the results suggested Mrs M would be unable to sustainably repay the loan. Mrs M raised a number of challenges. These included her partner's adverse credit history; her own use of an overdraft beyond its limit; and how MCB completed its affordability assessment, but the investigator did not change her view.

Mrs M disagreed with this position and asked for an ombudsman's review. She added that she was over her overdraft limit on the months before she applied. MCB should surely have known this from its credit check and so carried out further checks.

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 unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The rules and regulations when MCB arranged the loan for Mrs M required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So MCB had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mrs M. In other words, it wasn't enough for MCB to simply think about the likelihood of it getting its money back, it had to consider the impact of the repayments on Mrs M.

Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of credit they have applied for. In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the longer the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether MCB did what it needed to before agreeing to lend to Mrs M. So to reach my conclusion I have considered the following questions:

- did MCB complete reasonable and proportionate checks when assessing Mrs M's loan application to satisfy itself that she would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did MCB make a fair lending decision?
- did MCB act unfairly or unreasonably in some other way?

I can see MCB asked for some information from Mrs M before it approved the loan. It asked for details of her income and verified this with a third party. It also checked her credit file to understand her credit history and existing credit commitments. It estimated her housing and living costs using national statistics. From these checks combined MCB concluded Mrs M would be able to sustainably afford to repay the loan.

I think these checks were proportionate given the value of the loan and the monthly repayments relative to Mrs M's income, and the stage in the lending relationship between MCB and Mrs M.

And I think MCB made a fair lending decision based on the information it gathered. I will explain why.

From the checks detailed above MCB learnt Mrs M's monthly income was £2,230. She now says she was not working at the time, but she declared an annual income of £34,200 and MCB was able to successfully verify this using current account turnover from one of the credit reference agencies. So I find it was reasonable to use this data in its affordability assessment.

Based on ONS data her housing costs were estimated to be £347.92 and her living costs £668.55. Her credit check showed her existing monthly credit commitments were £225.36. So after taking on this loan she would have £758.42 of disposable income. It follows I find MCB made a reasonable lending decision on a pounds and pence basis. But it also had to consider the impact on Mrs M of making the new loan repayments.

It could see from her credit file that she was not over indebted, with £3,207 of active debt across six accounts that were well managed. She had no defaults or delinquent accounts. There were no active payday loans. She was £13 over her overdraft limit of £1,000 but I don’t think this needed to overly concern MCB given the results of its other checks. In the round, I don’t think there was enough evidence to conclude that Mrs M was under financial strain and/or that taking on this loan might go on to have adverse financial consequences for her.

Mrs M sent in evidence in the form of bank statements to show that she and her partner were using payday loans and gambling frequently at the time. She also said that her partner had recently defaulted on a credit agreement. But MCB would not have known this from its checks. She applied for the loan in her sole name. And based on the term and value of the loan - and the results of the checks it carried out - I cannot agree that MCB ought to have completed a fuller financial review. I don’t doubt Mrs M’s testimony that she was already struggling financially, but MCB’s checks – that were proportionate - did not show this to be the case.

So I cannot find MCB was wrong to lend to Mrs M.

I’ve also considered whether the relationship might have been unfair under Section140A of the Consumer Credit Act 1974. However, for the reasons I’ve already given, I don’t think MCB lent irresponsibly to Mrs M or otherwise treated her unfairly in relation to this matter. I haven’t seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

My final decision

I am not upholding Mrs M’s complaint

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs M to accept or reject my decision before 31 March 2025.

Rebecca Connelley
Ombudsman