

The complaint

Mr M complains that Dromara & Drumgooland Credit Union Limited (“the Credit Union”) has unfairly declined his application for a loan.

What happened

In May 2023, Mr M applied for a £60,000 loan through the Credit Union which was declined. The Credit Union wrote to Mr M and explained that the application had been declined due to affordability concerns.

Mr M then made another application in September 2023 for the same amount. This was also declined. The Credit Union again sent Mr M a letter explaining the reasons the application had been declined. This stated Mr M’s debt-to-income ratio was more than the threshold of 40% at 44%, there were inconsistencies in Mr M’s application compared to his credit report, and information was requested about payments leaving the account however this hadn’t been provided.

Mr M didn’t think this was fair. He said he was told by the Credit Union that in order for the application to be accepted, he would need to have a debt-to-income ratio of 45%. He said when he made the second application, his expenses had changed, and his debt-to-income ratio was 44% which is less than the 45% criteria. However, the Credit Union changed the debt-to-income ratio to 40%, which meant he didn’t pass affordability testing even though his expenses had decreased.

Following a subject access request (SAR), Mr M found that the Credit Union had amended his application to include expenses he said he didn’t have – and it didn’t check this with him. He also says it calculated the debt-to-income ratio including the repayment for the loan which was wrong.

The Credit Union responded to Mr M’s complaint, but it didn’t uphold it. It explained that it didn’t think it had used incorrect information to process Mr M’s application. It said it didn’t feel it had miscommunicated with Mr M and said that it had offered Mr M face to face meetings which were declined. It said it hadn’t lied throughout the process as Mr M had suggested. And it explained that it had tried to present other options for Mr M, like providing a guarantor for the loan, which Mr M declined.

When Mr M referred the matter to this Service, he said the Credit Union should put things right by removing markers from his credit file, having his loan application re-evaluated using the correct figures and awarding compensation for the distress and inconvenience the matter has had on him, as well as the time it took the Credit Union to provide his SAR.

When the Credit Union received a request from this service for its file, it said it would like to make Mr M an offer. It said it would remove any information it reported to the credit reference agencies (CRA’s). It said it would review another application for Mr M. And it offered to pay Mr M £200 compensation for the delay in the SAR request being sent to him. An Investigator put this offer to Mr M, while explaining that they thought this was a fair way to settle the complaint.

Mr M didn't agree with the Investigator's view. He said that the Credit Union still hadn't accepted that it had done anything wrong. And he said he didn't want to provide further information to the Credit Union for his application to be reassessed. He wanted the Credit Union to use the information it had already obtained in September 2023.

Because an agreement couldn't be reached, the complaint was passed to me to decide on the matter.

I previously issued a provisional decision on this case, it was my intention to uphold Mr T's complaint due to a delay in the Credit Union providing Mr M with a SAR. However, I didn't think the Credit Union had done anything wrong in declining his application for a loan. And so I didn't require it to do anything further in relation to this.

I have copied my provisional findings below, which also form part of this final decision.

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

I think it's important to firstly explain I've read and taken into account all of the information provided by both parties, in reaching my provisional decision. I say this as I'm aware I've summarised Mr M's complaint in considerably less detail than he has. If I've not reflected something that's been said it's not because I didn't see it, it's because I didn't deem it relevant to the crux of the complaint. This isn't intended as a discourtesy to either party, but merely to reflect my informal role in deciding what a fair and reasonable outcome is. This also means I don't think it's necessary to get an answer, or provide my own answer, to every question raised unless I think it's relevant to the crux of the complaint.

Generally, it is up to a business, like the Credit Union, to decide what risk it is prepared to take when providing someone with credit. And this service wouldn't generally interfere in a business's decision like this. The Credit Union also has a responsibility to ensure that it provides credit in a way that is responsible and affordable.

I've looked at the information provided by the Credit Union in relation to both applications, however I have focussed on the second application from September 2023, as this appears to be the one Mr M has concerns over.

Mr M submitted an initial application in May 2023. The application appears to have been declined by the credit committee in August 2023 as it didn't meet the Credit Union's affordability criteria. The Credit Union asked Mr M if he would consider using a guarantor for the application which it says he declined. And it asked him to attend its office for a face-to-face meeting which Mr M also declined. I haven't seen anything here that makes me think the Credit Union treated Mr M unfairly during this process or when it took the decision to decline the first application.

In relation to the September 2023 application, the Credit Union explained that this application was declined due to affordability and lack of surplus funds available. It explained that it didn't have clarity of some of the funds leaving Mr M's account, which Mr M said was savings, however the application notes suggest Mr M wouldn't provide these statements when asked. And some of the expenses that are generally associated with homeowners weren't included on the income and expenditure form, for example buildings insurance.

The Credit Union said it added costs to the application that it thought Mr M might reasonably incur, for example, Mr M's credit report showed that he had a mortgage, as did his first application for the loan, however mortgage payments weren't included as expenditure on the

second application.

While I appreciate that Mr M is unhappy that the Credit Union added costs to his application, it would appear that his credit report showed he still had a mortgage, and the repayments for this were missed from the application. So, the application submitted in September 2023 by Mr M doesn't appear to be an accurate reflection of his financial position at the time – or at least it doesn't mirror what was on his credit file. If Mr M was still liable for mortgage repayments, it doesn't seem unreasonable that he would also be required to pay for costs relating to the ownership of that building, for example buildings insurance. I also note that on the application Mr M signed in September 2023, he circled the box to say he owned his home. It doesn't seem unreasonable that the Credit Union considered costs that it thought Mr M might reasonably incur when considering his application for the loan.

The bank statements Mr M provided shows transfers going to different financial institutions. The Credit Union says it asked Mr M about this, and he said it was to his savings account. The Credit Union also says that it asked for more information relating to these accounts, which Mr M declined to provide. Looking at the information from the statements themselves, I think it was reasonable of the Credit Union to have asked for this information before agreeing to provide Mr M with a loan. The sums of money going to these accounts is a fair proportion of funds going into the account – I find it reasonable the Credit Union asked for more information about this. And I don't think it was unreasonable for the Credit Union to have declined to provide credit to Mr M when it couldn't be sure of his ability to repay what he asked to borrow.

I can see that the Credit Union hasn't been consistent with the debt-to-income ratio allowed for applications. I can see in the information it has provided this Service that it said it was 40% and then in at least one letter to Mr M it said 45%. The Credit Union has also explained that this isn't the only factor it takes into account when deciding whether to provide credit, and that it wouldn't strictly apply this percentage when deciding whether to lend – it would take all factors into account. Mr M is particularly unhappy about this point. That's because he said his expenses had changed from the first application to the second – and he thought that his debt-to-income ratio now met the Credit Union's criteria. I can understand why Mr M might have felt that it was unfair of Credit Union to decline his application on this basis. However, I'm persuaded this wasn't the only criteria the Credit Union took into account when it took the decision to decline Mr M's loan application.

The Credit Union has explained that Mr M was using his overdraft facility on his bank account which was cause for concern. The use of an overdraft facility could be indicative of a reliance on credit, and I don't think it unreasonable that Credit Union took this into account when coming to its decision to decline the application.

Overall, and based on what I've said above, I can't fairly conclude that it was unfair or unreasonable of the Credit Union to have declined Mr M's applications. I don't find that it was unreasonable of the Credit Union to have considered expenses that Mr M might reasonably incur when it was assessing affordability. And even though I agree that the Credit Union hasn't been consistent with the debt-to-income ratio tolerance level it says it allows, I'm satisfied that this isn't strictly applied, and Mr M's overall position was considered when the decision was made to decline his application.

Overall, and based on what I've said above, I can't fairly conclude that it was unfair or unreasonable of the Credit Union to have declined Mr M's applications. I have noted that the Credit Union has said it would remove the credit searches from Mr M's credit file, and it would review a new application for him. If this offer is still available to Mr M, I'll leave it up to him to decide if he wants to accept this or not.

The Credit Union has agreed to pay Mr M £200 compensation for the delay in the SAR being sent. In my view, this is more than reasonable. And so, I won't be asking the Credit Union to pay Mr M anymore."

The Credit Union didn't respond to my provisional decision, so I have assumed it has nothing further to add.

Mr M provided a lengthy response to the provisional decision, explaining why he disagreed. Given the length of his response, I have only summarised below what I find to be the key issues Mr M is disputing.

- Mr M says the Credit Union told him the loan was declined due to him not meeting the 40% threshold. But this was unfair because the 44% was calculated using inaccurate and falsified figures.
- It isn't fair to include figures in an application that he hadn't agreed to.
- The Credit Union asked him to provide other statements, but he explained to it they weren't for personal expenses and the Credit Union accepted this.
- His application was declined within three days and he didn't receive a phone call about it or an email. He also wasn't provided with any other options.
- When he completed the second application, his financial position had changed, he had a greater income, paid off mortgage and had very little personal outgoings.

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.

I'll start by thanking Mr M for taking the time to provide the response he has done. It is clear how strongly he feels about what's happened in this case. And I'd like to assure him that I've read and taken into account everything he has said when coming to an outcome – as I know I have summarised what he's said in far less detail than he has.

It's also important to explain while I'm required to take into account the law, regulators rules and regulations, as well as what I consider to be good industry practice, I ultimately need to decide the outcome of this case on a fair and reasonable basis.

I'll start by saying that I would expect the Credit Union to have done thorough checks of Mr M's full financial position before granting a loan of £60,000. And I wouldn't expect it to have approved a loan of this value if it had concerns over its affordability. Especially given that Mr M was requesting a loan of more than double the salary he told the Credit Union he got.

It isn't in dispute here that the Credit Union added expenses to Mr M's application that it thought he might incur. I can understand why Mr M is particularly concerned by this point, as he feels this has resulted in his application not having been fairly considered.

The bank statements I have seen on file, which were provided to the Credit Union show mainly transfers in and out of the account. So, it's difficult to see from this what expenditure Mr M has. There are also little to no payments for general day to day living expenses that you might ordinarily expect to see, for example food, clothes etc. I hope Mr M can understand that this is unusual. While I'm not saying this isn't an accurate reflection of his expenditure, I would certainly have expected the Credit Union to do some more checks before agreeing to a loan of a value of £60,000 with the information from the bank statements.

I can see that the Credit Union requested some additional bank statements from Mr M. Mr M responded to say that the account didn't relate to his personal expenditure. And the Credit Union doesn't appear to have pushed for the information. I wouldn't have expected the Credit Union to have insisted Mr M provided that information, but it also wouldn't be reasonable of the Credit Union to have granted a high value loan without knowing Mr M's full financial position. Based on the email correspondence Mr M has provided me with between himself and the Credit Union in relation to the matter, I can understand why Mr M thought he didn't need to provide this. And so, he didn't end up sending anything further.

In the second application Mr M completed for the loan, Mr M said that he earned £1,978 per month. And he had expenses of £10 per month for a mobile telephone, £47 a month for vehicle insurance, £1.66 per month for road tax, £10 per month for fuel and £80 per month for grocery shopping. When the Credit Union considered Mr M's application, it appears to have considered an income of £2,085, included a monthly rent or mortgage payment of £223 and increased his fuel payment to £86.30 per month. While the Credit Union said it thought Mr M might incur other expenses such as buildings insurance, looking at the application for September, it doesn't look like it included this when assessing affordability.

In my provisional decision, I explained why I thought it reasonable of the Credit Union to have included the mortgage repayments – this is because the mortgage was showing on Mr M's credit file. Mr M doesn't appear to be disputing in this inclusion anymore. And for clarity, I still think this was reasonable, given the information showing on Mr M's credit file.

I note that Credit Union increased Mr M's fuel expenses. While I don't know the reason for this, it appears it has done so in line with Mr M's previous application. Like I said, I can understand Mr M's disappointment at this, given that he didn't agree to it. Having said that, it's unlikely it would have made a difference to the overall outcome of the application.

The Credit Union has also included payments on the application that it can see leaving Mr M's account to other financial institutions. These total a large proportion of the amount leaving Mr M's account, so I don't think it was unreasonable of these to have been included when considering affordability.

Overall, I don't think it was unfair or unreasonable of Credit Union to have declined Mr M's application based on the information it had available. As I've explained in my provisional decision, the affordability ratio that Credit Union have referred to isn't the only factor I would have expected the Credit Union to take into account when assessing affordability. It is up to the Credit Union to decide how to do this, and it doesn't have to disclose its lending policies and procedures.

It is of course difficult for me to know what was said to Mr M during the phone calls it had with Credit Union about his circumstances, I can see Mr M has referred to conversations in his submissions to me. Even if I were to accept that the Credit Union didn't take reasonable care when assessing Mr M's application. My direction would be to ask that it removes the credit search from Mr M's credit file and reassess a further application. Given that the Credit Union has already agreed to do this, I will add this to the actions I require Credit Union to take. However, I will add that if Mr M chooses to reapply, he will be required to provide up to date information about his circumstances. This will also require him to co-operate with any requests the Credit Union makes for information.

I don't draw anything negative from the time it took Credit Union to decline the loan. I know Mr M has concerns that this was done too quickly – in only three days, but I don't think this necessarily means that a proper consideration didn't take place. There was also no requirement for the Credit Union to let Mr M know the outcome of the application in either a

phone call or an email. I would expect it to let Mr M know the outcome in some way, and I can see it did this in a letter shortly after the decision to decline had been made.

There is also no requirement on the Credit Union to do something to help Mr M get a loan. Mr M has suggested that the Credit Union didn't say he could get a guarantor for the second loan, offer him a lesser loan amount, or ask him to attend a meeting. It didn't have to do this, and this isn't unreasonable.

I note that Mr M has stated that he has been treated unfairly by the Credit Union in different ways. He's referred to, amongst other things, it terminated phone calls and didn't communicate with him in the way he asked. While I don't have much information to know what happened, even if I were to accept that the Credit Union should have done more for Mr M here, based on what he's described I think the £200 it has already agreed to pay Mr M is fair to cover any additional customer service issues.

Having reconsidered everything again, I'm still of the view that Credit Union has fairly declined Mr M's loan application. But as I explained, I'm not privy to the phone conversations that Mr M had with Credit Union about his circumstances and so, to give Mr M the benefit of the doubt, I will require it to remove the September 2023 credit search from his credit file and reassess a new application for Mr M if he wants to do this. I also require Credit Union to pay Mr M £200 for the delay in the SAR being sent to him, and I'm satisfied that this payment is also enough to cover any customer service issues Mr M says he experienced.

Putting things right

The Credit Union should put things right for Mr M by:

- Remove the credit search for the second application in September 2023.
- Reassess a new application for Mr M, if he chooses to do this.
- Pay Mr M £200 for the delay in the SAR.

My final decision

For the reasons set out above, I uphold Mr M's complaint. Dromara & Drumgooland Credit Union Limited should put things right for Mr M by doing what I've said above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 13 January 2025.

Sophie Wilkinson
Ombudsman