

The complaint

Ms O complains that London Mutual Credit Union Limited (“LMCU”) irresponsibly granted her credit that she couldn’t afford to repay.

What happened

LMCU approved several loans, and payday loans, for Ms O between May 2013 and October 2014. I’ve summarised those loans in the following table.

Loan	Date	Amount	Repayment	Term
1	24/5/2013	£400	£142.37	3
2	24/7/2013	£400	£142.37	3
3	5/8/2013	£1,000	£95.00	12
4	29/8/2013	£400	£142.37	3
5	13/11/2013	£200	£73	3
6	10/12/2013	£1,000	£95.00	12
7	3/7/2014	£100	£114	1
8	20/8/2014	£100	£114	1
9	24/9/2014	£100	£39	3
10	9/10/2014	£1,000	£70	18
11	9/10/2014	Reschedule £1,332	£74	18

Ms O says that LMCU were wrong to provide credit as it wasn’t affordable for her.

LMCU disagree. They say that when they approved the loans they reviewed Ms O’s income and expenditure, checked her pay slips and bank statements, and performed a credit check. They explained that whilst they did reject some of Ms O’s other applications they found the loans I’ve listed above, affordable for her.

Our investigator thought that LMCU shouldn't have approved some of the loans and she suggested LMCU should take some action to remedy the situation. But LMCU disagreed and the complaint has been referred to me, an ombudsman, for a final 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.

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 LMCU's final response to Ms O they said that for the £1,000 loans they reviewed bank statements, checked pay slips, and completed a credit check before approving the lending. I think they were reasonable and proportionate checks. I'll therefore go on to consider if the information LMCU saw for these loans suggested they were affordable for Ms O.

The checks they did for the other loans haven't been well evidenced and although these loans were smaller I think, given Ms O's history of needing short term lending, the business should have done more to assure themselves that the lending was affordable for Ms O. They should have considered Ms O's expenditure. I don't know what they would have discovered if they'd asked about that but in the absence of other information I think the best place to look is in Ms O's bank statements from around the time of lending.

For loans 1, 2, and 3 I've not been provided with evidence from Ms O to show the loans were unaffordable for her, I've not seen bank statements covering that period and her credit file doesn't demonstrate it's likely she was struggling financially. I think the credit LMCU provided was therefore likely to be affordable and the lending decisions were reasonable. As loan 6 was to refinance loan 3 at the same rate of interest I don't think Ms O was disadvantaged by that or that loan 6 was unaffordable.

For loans 4 and 5 Ms O's bank statements show she was struggling to meet her essential costs and her debts to other lenders. She was borrowing from several pay day lenders (about eight) and her payments towards those debts, payments towards food and essential expenses, and payments to debt collection companies, were in excess of her income. I don't think the repayments on these loans could fairly be considered sustainably affordable and I don't think they should have been provided.

For loans 7 to 11 Ms O's bank statements show she was still heavily reliant on payday loans, she'd also taken out two credit cards with credit limits totalling £750, she was paying back debts to at least four debt collectors and her outgoings on these debt repayments, and her essential spending, were in excess of her income which was still around £1,800 per month. I don't think these loans were therefore sustainably affordable for Ms O and I don't think they should have been advanced by LMCU.

I've read LMCU's submissions and I understand their commendable purpose. I don't dispute that they help individuals, who would otherwise have to pay high interest rates for credit to obtain credit at much more favourable rates. However, I can't see that the money LMCU provided with regards to the loans I've disputed, reduced Ms O's overall burden of debt. She continued to take out loans with payday lenders and unfortunately the lending simply increased her indebtedness.

Putting things right

To put things right, I think LMCU should:

- Refund any interest and charges already paid by Ms O in respect of loans 4 and 5, and 7 to 11.
- Apply 8% simple interest per year to any interest and charges refunded from the date they were paid to the date of settlement*.
- Remove any adverse payment information about the refunded loans from Ms O's credit file

*HM Revenue & Customs requires LMCU to take off tax from this interest. LMCU must give Ms O a certificate showing how much tax it's taken off if she asks for one.

My final decision

I uphold this complaint in part and tell London Mutual Credit Union Limited to put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms O to accept or reject my decision before 18 November 2022.

Phillip McMahon
Ombudsman