

The complaint

Miss M complains that London Community Credit Union Limited (LCCU) provided her a top up loan that was unaffordable and did assist her when she was in financial difficulties.

What happened

Miss M was provided with a £350 top up loan in September 2019. This brought her total loan amount to around £1,454 and Miss M was required to make weekly repayments of £20 over 104 weeks. The loan was rescheduled on three occasions.

Miss M says the loan wasn't affordable and that when she contacted LCCU about this it wasn't supportive and just made her sign further agreements which she couldn't afford to maintain. She says LCCU provided incorrect information and took duplicate payments from her account.

LCCU says that Miss M took out a loan for £350 on 2 September 2019. She already had an existing loan balance of £1104.40 and so once the loan had been credited, the new loan balance was £1454.40. It says the loan was for education expenses, books and uniform. Before providing the loan, it says it assessed the affordability of the loan based on three months of Miss M's bank statements. Miss M missed repayments and LCCU says the loan was rescheduled on three occasions to assist her in managing her account.

Our investigator didn't think she had enough to say LCCU was wrong to provide the top up loan. However, she thought LCCU should have done more to assist Miss M given she had explained her financial difficulties. She recommended that all missed payment charges be waived.

Miss M didn't agree with our investigator's view.

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.

LCCU will be aware of all the rules, regulations, guidance and good industry practice applicable to the provision of these loans and what we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don't consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

LCCU has said it assessed the affordability of the loan based on Miss M's income and assessment of three months of bank statements. This information should have given an indication of Miss M's income and expenditure leading up to the loan, but I also think it would have been reasonable for LCCU to have carried out a credit check before lending. I haven't seen the outcome of LCCU's affordability checks. Miss M has provided a copy of her credit report and bank statements covering the period mid-May to mid-August 2019. Miss M has also provided bank statements for a period after the top up loan was provided. I think this

evidence gives a reasonable indication of what LCCU would have seen through its checks and had it undertaken a credit check.

Miss M's credit report shows that she had two historic defaulted accounts. Miss M had also previously used high cost loans and had a high cost loan outstanding at the time. While I do not think the credit information means that LCCU shouldn't have provided Miss M with the top up loan I think that as there were signs that Miss M may be struggling financially, it needed to verify her income and understand her expenses to ensure that the additional lending was affordable for her.

Miss M has said that she lost her job in August 2019 and says she told LCCU about this. However, I haven't seen evidence that she told LCCU this at the time the top up loan was provided. Miss M's bank statements show she had an average monthly income of around £2,880 consisting of her salary and benefit payments. Additional to this there were regular transfers into her account from another account seemingly in her name. Miss M also provided a testimony about her costs for the time and these totalled just over £1,000. The bank statements show regular committed expenditure for housing, insurance, credit commitments and other living costs which suggest expenses higher than Miss M's testimony and although these varied the average was around £1,300. I think that had LCCU carried out an assessment of Miss M's expenses it was likely to record a figure of around £1,300. Based on an income of around £2,880 I do not find I can say that weekly repayments of £20 would appear unaffordable.

Miss M also complained that LCCU didn't provide the support it should have when she explained she was in financial difficulties. I can see that Miss M made her first loan repayment and then had two direct debits returned. She then had a successful payment before the next two were returned. LCCU says that it rescheduled Miss M's loan to assist her account management. While I note this, given Miss M had missed four of the first six repayments, I think it would have been reasonable to carry out further checks at that point to ensure the lending was affordable, rather than to reschedule the loan with the same payment amounts but longer duration.

I also note at this time Miss M says she had told LCCU about her job loss in August 2019. While I cannot say what would have been identified had a further affordability check been carried out at this point, I do not find that adding further charges to the account without this happening was fair and reasonable. Therefore, I agree with our investigator that LCCU didn't do enough to assist Miss M when she was experiencing financial difficulties.

Based on this, and the comment about additional payments being taken and charged for the returned direct debits on these additional payments, I think the fairest way to resolve this complaint is for Miss M to have all the charges for returned direct debits (along with any interest that has been charged on these) deducted from her outstanding balance. Miss M will still have an amount outstanding and I think that LCCU should work with Miss M to ensure an affordable repayment plan is set up going forward.

Putting things right

To put things right, I think LCCU should:

- Remove all returned direct debit fees incurred, and associated interest, since end September 2019 from the outstanding loan balance.

Given Miss M has said she's still experiencing financial difficulties LCCU need to act positively and sympathetically towards her and Miss M and LCCU need to work together to setup an affordable repayment plan.

My final decision

My final decision is that I uphold this complaint. London Community Credit Union Limited should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 23 December 2022.

Jane Archer
Ombudsman