

The complaint

Miss L says London Community Credit Union Limited (LCCU) irresponsibly lent to her.

What happened

Miss L took out three loans from LCCU. She borrowed £487.53 in December 2013, in part to repay her overdraft, and she repaid this in 39 fortnightly repayments of £15. She then borrowed £1,500 on 21 January 2020 and £1,975.64 on 11 December 2020 (£975.64 was used to repay the balance on the previous loan). These two loans were both repaid with weekly repayments of £20, loan 3 over 167 weeks.

Miss L says the lending has caused her financial hardship as well as stress and anxiety, and LCCU has not responded to her complaint. She is looking for all interest and charges she paid to be refunded and for compensation for the stress.

Our investigator did not uphold Miss L's complaint. She said in each case LCCU's checks had not shown any signs that the loans would not be sustainably affordable for Miss L. She also said the additional information Miss L had provided to this service did not show she was having problems managing her money.

Unhappy with this assessment Miss L asked for an ombudsman's review.

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.

We've set out our general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website.

Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Miss L's complaint. These two questions are:

1. Did LCCU complete reasonable and proportionate checks to satisfy itself that Miss L would be able to repay her loans in a sustainable way and without experiencing significant adverse consequences?
 - If so, did it make fair lending decisions?
 - If not, would those checks have shown that Miss L would've been able to do so?
2. Did LCCU act unfairly or unreasonably in some other way?

The rules and regulations in place required LCCU to carry out a reasonable and proportionate assessment of Miss L's ability to make the repayments under this agreement. This assessment is sometimes referred to as an affordability assessment or affordability check.

The checks had to be borrower focused – so LCCU had to think about whether repaying the loans would be sustainable for Miss L. In practice this meant that business had to ensure that making the payments to the loans wouldn't cause Miss L undue difficulty or significant adverse consequences.

In other words, it wasn't enough for LCCU to simply think about the likelihood of it getting its money back, it had to consider the impact of the repayments on Miss L. Checks also had to be proportionate to the specific circumstances of each loan application.

In general, what constitutes 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/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss L's complaint.

LCCU has provided evidence to show that before lending in 2020 it asked about Miss L's employment status, completed an income and expenditure analysis (it asked for the last three months' bank statements, and for the last loan three months' proof of income) and it carried out a credit check. It is not clear what checks were completed for the first loan, but this is not unreasonable given the time since the loan. I can see LCCU asked what the source of income was for the repayments and I note at this stage Miss L had a current account with LCCU.

Based on the results of these checks LCCU thought it was fair to lend.

I think the checks were proportionate given the loan values, term and repayment amounts. But LCCU has not provided the results of its checks, despite a number of requests to do so. This means it is difficult for me to assess if it made fair lending decisions.

To try to understand what its checks would most likely have shown at the time of the second and third loan I have reviewed the additional information Miss L sent in about her circumstances in 2020. Her credit file shows she was up-to-date with her other credit in both January and December 2020 and there were no public records on her file, nor such a level of adverse data that LCCU ought to have been concerned.

Miss L also sent bank statements for this time. They do not show any of the typical signs of financial hardship such as reliance on an overdraft, use of payday loans or returned direct debits. It follows I am satisfied that LCCU's checks, which were proportionate, most likely showed the second and third loans to be sustainably affordable for Miss L.

With regards the first loan, I have no additional data to rely on, so without further information I cannot fairly conclude the loan wasn't affordable for Miss L.

It follows I don't think LCCU was wrong to lend to Miss L.

I've also thought about whether LCCU acted unfairly in some other way (that I have the power to consider) and I haven't seen any evidence that it did. I know Miss L is unhappy that LCCU did not respond properly to her complaint. But there is a difference between a complaint about a financial service and a complaint about how a firm has handled a complaint. I can only look at the former. Miss L's concerns about how LCCU responded to her complaint is not a complaint about LCCU's provision of or failure to provide a financial service – it's distinctly about complaint handling. And under our rules I cannot consider complaint handling.

My final decision

I am not upholding Miss L's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 2 May 2023.

Rebecca Connelley
Ombudsman