

The complaint

Miss A complains that Commsave Credit Union Limited lent to her irresponsibly.

What happened

In April 2020 Miss A applied for a loan with Commsave. Commsave approved the application and gave Miss A a loan for £500.

In September 2020 Miss A applied for another loan. Commsave approved the application and gave Miss A a loan for £1000.

Miss A complained that Commsave lent to her irresponsibly. Commsave didn't uphold the complaint. It said it had carried out proportionate checks before lending to Miss A.

Miss A remained unhappy and brought her complaint to this service.

Our investigator upheld the complaint. They said that the checks completed before the first loan was approved showed that Miss A was unlikely to be able to sustainably repay the loan. The investigator also said that the second loan had been lent irresponsibly because there had been no significant and sustained improvement in Miss A's financial circumstances since the borrowing in April 2020.

Commsave didn't agree. It said that although Miss A had some impairments on her credit report, she had sufficient disposable income to afford the loan repayments.

Commsave suggested that as a resolution it would uphold the complaint in relation to the first loan only.

Miss A didn't accept the resolution offered so I've been asked to make a 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.

We've set out our approach to complaints about irresponsible and unaffordable lending on our website. I've had this approach in mind when considering Miss A's complaint.

Before agreeing to lend, Commsave needed to complete reasonable and proportionate checks to ensure that Miss A could sustainably repay what was being lent to her. There's no set list of checks that a lender must complete. But lenders are required to have regard to things like the amount being lent, the total amount repayable, the monthly repayment and the consumers individual circumstances when deciding what's reasonable and proportionate.

Miss A provided details of her income and expenditure when she applied for the first loan. Commsave has said that it didn't think it was necessary to verify Miss A's expenditure but said it carried out checks to ensure that the expenditure declared appeared reasonable.

Commsave carried out a credit check. This showed that Miss A had two credit accounts in arrears and registered as delinquent. She also had two telecommunications accounts in arrears.

The credit check also showed that Miss A had opened a credit facility 5 months prior to the Commsave loan application and had already fully utilised the credit limit. Miss A had also entered into a hire purchase agreement 2 months prior to the Commsave loan application.

Given the relatively low amount of the loan, I think the checks carried out by Commsave were reasonable and proportionate. However, I don't think the lending decision was fair. I say this because Miss A was using around 34% of her income to make debt repayments (before taking account of the Commsave loan). This is a significant debt to income ratio. Experience tells us that consumers who use more than 25% of their income to repay debt are likely to struggle to repay debt in the future.

Further, the information from the credit check shows that Miss A had issues making payments across at least 4 credit accounts. As against this background it appears that Miss A was unlikely to be able to sustainably repay any further borrowing.

Further, the additional borrowing taken out by Miss A in the months prior to this loan and the full utilisation of the credit facility in a short period of time suggest that Miss A was struggling financially.

In these circumstances, I think the lending decision to approve the first loan was unfair.

I've looked at the information obtained from the checks carried out by Commsave before the second loan was approved. The credit checks showed that Miss A had a third delinquent account by this time and that her bank account was in unauthorised overdraft. There was also a credit card account subject to a payment arrangement. The information shows that Miss A's financial circumstances had not significantly improved since the first loan.

I've also reviewed Miss A's bank statements from around this time. These show that her income was significantly lower than the figure used by Commsave in its affordability assessment. They also show that the account was operating in deficit, so Miss A didn't have sufficient disposable income to afford any further borrowing.

For these reasons I don't think the second lending decision was fair.

Putting things right

Loan 1 and Loan 2

Commsave must:

Refund all interest and charges paid by Miss A

If the borrowing is still in place, reduce the capital balance by the amount above

If an outstanding balance remains, ensure that this isn't subject to any historic or future interest or charges

If there is a positive balance, give this back to Miss A along with simple interest of 8% per year*

Remove any adverse information recorded on Miss A's credit file in relation to the loans once

the outstanding balance is cleared

*HMRC require Commsave to take off tax from any award of interest. Commsave must give Miss A a certificate showing how much tax has been taken off if he asks for one

My final decision

I uphold the complaint. Commsave Credit Union Limited must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 26 July 2023.

Emma Davy
Ombudsman