

## **The complaint**

Miss R says Crownsavers Credit Union Limited irresponsibly lent to her.

## **What happened**

Miss R took out a loan for £33,000 from Crownsavers in September 2018. The term was 60 months and the monthly repayment was £736.

She then extended her borrowing by a further £6,000 in May 2019. This increased the monthly repayment to £858 over a 54-month term. The monthly repayment figures include interest that was initially charged at an APR of 12.7%, not 6.2% as agreed. An interest rebate was paid to Miss R to correct this. There remains an outstanding balance.

In September 2018 Miss R's intention to was to repay high-cost debts her mother held and to repay the loan with the sale of her mother's house. But Miss R says the lending was not affordable for her. She was not financially stable at the time and she was struggling with her mental health. As the loans were repaid directly from her salary she fell behind on priority bills such as her mortgage.

Our investigator upheld Miss R's complaint. He said the lending was irresponsible, it required Miss R to spend a high percentage of her income on credit repayments that would most likely not be sustainable. Her bank statements showed her outgoings already exceeded her incomings.

Crownsavers disagreed with this assessment and asked for an ombudsman's review. It said, in summary:

- There was significant goodwill between Miss R and its CEO at the time which seems to have influenced how the application(s) was approached.
- Miss R had taken out a number of other loans, totalling £15,500, from Crownsavers between 2012 and 2018.
- The initial loan was to repay more expensive debts Miss R's mother owed - so it was a consolidation loan – which means it would not increase the indebtedness of the borrower, indeed Miss R's own calculations showed she would be saving £500 per month. Miss R's mother was a dependant and a member of her household. The loan gave them a refinancing solution at a very low rate.
- It was told a property in the mother's name would be sold to repay the loan(s) and it relied on this promise. This promise was broken and this must be taken into account.
- On this basis it gave Miss R the lower APR that it offers on its 'security loan'.
- Miss R declared rental income from two other properties and had a relatively low mortgage suggesting she had significant equity.

- It has shown forbearance when Miss R struggled to make the repayments offering a payment holiday and reduced payment plans.
- Due to its low margin model upholding this complaint will put its entire business at risk.

### **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.

Crownsavers has engaged fully in defending this complaint and I want to reassure it I have carefully considered all of the points it has raised. However, in keeping with our role as an informal dispute resolution service and as our rules allow, I will focus here on the issues I find to be material to the outcome of Miss R's 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 R's complaint. These two questions are:

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

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

The checks had to be borrower focused – so Crownsavers had to think about whether repaying the loan would cause significant adverse consequences *for Miss R*. In practice this meant that the business had to ensure that making the payments to the loan wouldn't cause Miss R undue difficulty or significant adverse consequences. In other words, it wasn't enough for Crownsavers to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Miss R.

Checks also had to be proportionate to the specific circumstances of the 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 R's complaint.

Miss R applied for a high-value, unsecured loan and had been repeat borrowing from Crownsavers for six years. So I think Crownsavers needed to complete a comprehensive review of Miss R's financial circumstances prior to lending. It says its checks included reviewing bank statements, a credit check, checking the rental agreements for the declared rental income and assessing the income and expenditure Miss R declared at application. It cannot provide the bank statements, the rental agreements or the credit check (although it has supplied the result of a check it completed in June 2018). Based on the results of these checks Crownsavers decided the lending was affordable for Miss R.

As the evidence is incomplete it is difficult for me to assess if Crownsavers' checks were proportionate. I say this as I cannot know, for example, if the summary credit check it completed showed that further checks were needed. However I need not comment further on this as I am able to review Miss R's circumstances at the time using copies of the bank statements she has provided, in addition to the June 2018 credit check from Crownsavers. This allows me to see what Crownsavers most likely knew at the time of the application(s) based on the checks it told us it completed. That way I can decide if fair lending decisions were made.

I agree with the investigator that the initial loan was irresponsibly given. It increased the amount of income Miss R would need to spend each month to meet all her contractual credit commitments to a level at which Crownsavers ought to have realised there was a high risk Miss R would not be able to sustainably repay the debt over the term of the loan. That is, without borrowing further or suffering some other adverse financial consequence. And Crownsavers would have been aware of this from its review of Miss R's bank statements. And it could also see Miss R had taken out a high-cost loan just the month before and the direct debit for its monthly repayment had failed in September 2018. So there was already evidence of financial pressure. I think Miss R's request for a top-up just eight months later also evidences the existence of that predictable risk of financial harm.

Crownsavers argues that if a loan is for consolidation the borrower's indebtedness does not increase. But from what I understand Miss R was not repaying any of her existing debt, rather a number of her mother's debts. The initial loan added £44,123.23 of debt to Miss R's unsecured debt balance of £23,719. This is a very significant increase in her circumstances.

Crownsavers seems keen that we consider the change in the indebtedness and the cost of credit of the household – but I disagree. The loan was in Miss R's sole name so she was solely liable. To meet its obligations Crownsavers needed to be sure she could sustainably afford the repayments, not that it put her mother – or their informally combined finances - in a better position. It argues this matters as Miss R's mother was a dependent but I have seen no evidence it carried out any checks to better understand these circumstances.

I also find it was not fair to Miss R, nor in line with regulatory guidelines, to make a lending decision relying on the future sale of a house, even more so when it was not owned by the applicant. Crownsavers argues that had the property sale gone ahead as promised the loan

would have been repaid, but that only reinforces my point that possible future income of this particular nature should not be relied on. It also references the likely significant equity Miss R had as another sign of affordability but I cannot see it did any checks into this and it is not reasonable to rely on assumptions in a lending decision of this scale.

It follows that I also find Crownsavers was wrong to top-up Miss R's loan in May 2019 as I have not seen evidence that her overall indebtedness and monthly spend on credit had decreased to a level such that it was responsible to extend her borrowing.

I would add that Crownsavers has focused on the pounds and pence affordability of its lending and what Miss R said she could afford, but it is obliged to consider the sustainability of the repayments. As the industry is aware consumers spending a high percentage of their income on credit are at risk of falling into financial difficulties.

It follows I think Crownsavers was wrong to lend to Miss R in September 2018 and May 2019.

*Did Crownsavers act unfairly or unreasonably in some other way?*

I don't find that it did. It treated Miss R fairly and with forbearance when she was struggling to repay her debt. If there remains an outstanding balance after the redress has been calculated I would remind it of its ongoing obligation to do so.

### **Putting things right**

It is fair Miss R should repay the capital she borrowed as she had the benefit of that money. But she should not pay interest and charges on borrowing that was unfairly given to her.

So Crownsavers should:

- Refund all the interest and charges Miss R has paid to date on the loan taken out in September 2018 and the top-up in May 2019.
- Reduce the outstanding capital balance by this amount.
- If there remains an outstanding capital balance, ensure that it isn't subject to any historic or future interest and/or charges and agree an affordable repayment plan with Miss R.
- If reworking the account leads to a positive balance, this should be given back to Miss R and 8% simple interest\* should be added to the surplus.
- Remove any adverse information recorded on Miss R's credit file as a result of the interest and charges on the loans taken out in September 2018 and May 2019 once any outstanding capital balance has been cleared.

\*HM Revenue & Customs may require the business to take off tax from this interest. If it does, the business must give Miss R a certificate showing how much tax it's taken off if she asks for one.

### **My final decision**

I am upholding Miss R's complaint. Crownsavers Credit Union Limited must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 16 October 2023.

Rebecca Connelley

**Ombudsman**