DRN-4388699

The complaint

Mr C says Penny Post Credit Union Limited irresponsibly lent to him.

What happened

Mr C took out a loan for £3,000 over 60 months from Penny Post on 29 March 2021. The monthly repayments were £83.37 and the total repayable was £5,012.78.

Mr C says he was £20,000 in debt. He already had another credit union loan that cost £400 each month and he had to pay child support of £300. He could not afford this loan and was in a harmful cycle of borrowing. His financial position almost drove him to suicide. He wants a refund of all interest, the balance on the loan to be cleared and an apology.

Penny Post says it carried out a full assessment before lending to Mr C to ensure the loan was affordable. And when he stopped making payments, it tried to contact him by letter and email. It was then told he was in a payment plan with StepChange but has received no payment since February 2023. It has frozen all interest in the interim.

Our investigator did not uphold Mr C's complaint. He said Penny Post's checks – a full review of Mr C's credit file, asking for payslip to verify income and obtaining recent bank statements via open banking– did not show anything that meant it was wrong to lend.

Mr C disagreed and asked for an ombudsman's review. He said Penny Post did not verify his income and the loan was unaffordable.

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 Mr C's complaint. These two questions are:

1. Did Penny Post complete reasonable and proportionate checks to satisfy itself that Mr C would be able to repay his loan in a sustainable way and without experiencing significant adverse consequences?

    - If so, did it make a fair lending decision?
    - If not, would those checks have shown that Mr C would've been able to do so?

2. Did Penny Post act unfairly or unreasonably in some other way?

The rules and regulations in place required Penny Post to carry out a reasonable and proportionate assessment of Mr C'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 Penny Post had to think about whether repaying the loan would be sustainable for Mr C. In practice this meant that business had to ensure that making the payments to the loan wouldn't cause Mr C undue difficulty or significant adverse consequences.

In other words, it wasn't enough for Penny Post to simply think about the likelihood of it getting its money back, it had to consider the impact of the repayments on Mr C. 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 Mr C's complaint.

Penny Post has provided evidence to show that before lending it asked about Mr C's employment and for a payslip. It reviewed his last three months' bank statements via open banking and it carried out a credit check. Based on the results of these checks Penny Post thought it was fair to lend.

I think the checks were proportionate given the loan value and repayment amount relative to his income. And I think Penny Post made a fair lending decision based on the information it gathered. I will explain why.

Mr C's payslip evidenced a net income of £1,416, it showed he did have a credit union loan as he's told us and that he repaid £412.46 directly from his salary each month. The credit check showed he had four active accounts, the most recent was opened nine months before. He had £3,549 of debt in total. He was not using an overdraft facility. There was some adverse information on his record but that was largely historic (the most recent CCJ was from 2016 and the most recent default 2019) so whilst I think that meant fuller checks were needed I don't see it was a reason to outright decline his application. And as Penny Post checked Mr C's transaction history using open banking I think it had a full enough view of his finances. His statements showed in the month prior to application his essential costs (largely food and petrol) were around £625. I note there were some gambling transactions but I do not think they were of a value such that this ought to have stopped Penny Post from lending.

Mr C referenced a child maintenance payment and from the open banking reports I cannot see a fixed monthly debit, but even allowing for the £300 he told us about I still find - based on the results of the proportionate checks Penny Post carried out - that it was fair to conclude this loan would have been sustainably affordable.

To be clear, I am not saying Mr C's finances were not perhaps less stable than the checks showed, but I do not think it would have been proportionate for Penny Post to complete the level of financial review needed to discover if that was the case.

I haven't seen any evidence Penny Post acted unfairly towards Mr C in some other way. I would urge him to contact the lender to agree an affordable repayment plan if there is not now already one in place via StepChange. I am sorry his financial position became so very overwhelming and I hope he now has the support he needs.

My final decision

I am not upholding Mr C's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 10 January 2024.

Rebecca Connelley
Ombudsman