

The complaint

Mr G says Glasgow Credit Union Ltd lent irresponsibly when providing him with a loan in 2019.

What happened

In January 2019, Glasgow Credit Union loaned Mr G £21,000 over an 84-month term. The purpose of the loan was to consolidate Mr G's existing debts. The interest rate on the loan was an annual percentage rate (APR) of 14.9%. The total charge for the credit was around £12,000, which meant the total amount repayable by Mr G for the £21,000 he was borrowing was around £33,000. The monthly repayments were around £393. The information Glasgow Credit Union recorded at the time of his application showed, among other things, he had a net monthly income of just under £2,000.

In 2023, Mr G complained to Glasgow Credit Union that it had lent irresponsibly to him and had worsened his financial situation.

Glasgow Credit Union responded that it wasn't upholding Mr G's complaint. Glasgow Credit Union said the loan application and credit check results were reviewed and accepted in line with its lending criteria.

Unhappy with Glasgow Credit Union's response, Mr G complained to this service. Our investigator looked into the complaint and recommended that it should be upheld. The investigator thought that Glasgow Credit Union hadn't carried out the checks it should have done prior to making the lending decision. They felt that, if Glasgow Credit Union had, it would have discovered that Mr G wasn't in the financial position to sustainably afford the loan payments. The investigator asked Glasgow Credit Union to put things right for Mr G in line with our general approach to such cases.

Glasgow Credit Union didn't agree with the investigator's initial assessment of the complaint. It then didn't respond to their updated assessment, despite several reminders being sent, so the complaint was referred to me to review afresh.

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 considering unaffordable and irresponsible lending complaints on our website – including the key relevant rules, guidance, good industry practice and law. And I've considered this in deciding Mr G's complaint.

Having done so, I'm upholding the complaint. I'll explain why.

I confirm that I broadly agree with the investigator's findings on Glasgow Credit Union's lending decision. I'm satisfied that the lending rules and provisions at that time meant

Glasgow Credit Union needed to assess whether it felt Mr G would be able to repay the credit taking account of factors such as his income and expenditure. In summary:

- I recognise Glasgow Credit Union carried out some checks to satisfy itself that Mr G would be able to repay the credit in a sustainable way.
- I don't doubt that the checks it carried out were consistent with its internal lending criteria. But, as suggested, there were wider rules and provisions that also needed to be considered by Glasgow Credit Union, irrespective of its own lending criteria.
- I don't believe the checks carried out went far enough given, among other things, the purpose of Mr G's loan was debt consolidation. In addition, the term of the loan was relatively long at 84 months and was for a substantial amount of money – over and above what was needed to consolidate the debt. In short, this was a significant financial commitment for Mr G.
- Although Glasgow Credit Union held some information about Mr G's expenditure, I believe it should have assessed this further to gain a better picture of his outgoings. Copy bank statements from the time and a recent credit report indicate to me that his level of indebtedness in 2019 was very high and that his disposable income was, at best, very low.

Taking everything into account, I can't see that Glasgow Credit Union carried out proportionate checks that would have enabled it to make a reasonable assessment on that issue. Mr G's circumstances in 2019 don't indicate to me that he was able to sustainably afford the credit. As such, Glasgow Credit Union should put things right for him.

Putting things right

I think it's fair and reasonable for Mr G to repay the principal amount that he borrowed, because he had the benefit of that lending. But he's paid interest and charges on the loan that shouldn't have been provided to him. So, I think Mr G's lost out and that Glasgow Credit Union should put things right for him. Glasgow Credit Union should:

- a) Remove all interest, fees and charges applied to the loan from the outset. Any payments made by Mr G should then be deducted from the new starting balance. If the payments Mr G's made total more than the amount he was originally lent, then any surplus should be treated as overpayments and refunded to him with 8% simple annual interest† calculated on any overpayments made, from the date they were paid by Mr G, to the date the complaint's settled.
- b) If there's still an outstanding balance on the loan, then Glasgow Credit Union should agree an affordable repayment plan with Mr G, bearing in mind the need to treat him positively and sympathetically in those discussions, and take account of his current ability to repay the loan.
- c) Remove any relevant adverse information recorded on Mr G's credit file as a result of the lending.

† HM Revenue & Customs requires Glasgow Credit Union to take off tax from this interest. Glasgow Credit Union must give Mr G a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons given, I uphold this complaint. I require Glasgow Credit Union Ltd to put things right for Mr G as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 7 March 2024.

Nimish Patel
Ombudsman