

The complaint

Miss W has complained about the way London Community Credit Union Ltd (LCCU) administered a loan agreement she'd entered into.

What happened

To summarise, Miss W entered into a personal loan agreement with LCCU in May 2019 to borrow £2,000. The agreement sets out a previous loan of around £2,000 was to be paid off as well. The agreement sets out the new loan would be repaid with repayments of £120 monthly over a period of 56 months with a final payment of £41.55.

From what I've seen, Miss W rescheduled the loan in February 2020. She borrowed £3,567.22. The agreement sets out this would be repaid with loan repayments of £100 monthly over a period of 64 months with a final payment of £48.28.

I understand Miss W entered into financial difficulties in 2021 and she approached a debt charity that I'll call "S" for help in setting up a debt management plan. As far as I can see, S put forward its first credit proposal to LCCU in November 2021. I understand S, on behalf of Miss W, was making £5 payments to LCCU, starting in March 2022. But LCCU contacted Miss W throughout 2022 because of missed payments. I understand S sent several other credit proposals to LCCU throughout 2022, but LCCU said it wasn't until the fourth proposal (in October 2022) that it was received. Miss W had been speaking to LCCU throughout.

LCCU decided to transfer around £1,300 from Miss W's savings account (also with LCCU) to the loan around May 2022. Miss W was unhappy about this because S had been making repayments on her behalf, but LCCU said it was allowed to do that in line with terms of the loan agreement.

Miss W referred the complaint to the Financial Ombudsman. Our investigator sent an assessment in May 2023 and said he thought S had informed LCCU about the plan several times. He said S had been making monthly repayments from March 2022. But he didn't think LCCU ought to have used the savings to pay towards the loan given S had been making payments. He thought that LCCU should correct Miss W's credit file to show the arrangement. He said LCCU should return the savings to Miss W, and also pay Miss W £100 compensation. Miss W accepted the proposal. LCCU agreed to pay £100. It said it would look into how the loan was being reported on Miss W's credit file. But it said the terms of the loan agreement set out the savings would be used to offset the outstanding balance if repayments were missed.

I issued a provisional decision that said:

I want to acknowledge I've summarised the events of the complaint. I don't intend any discourtesy by this – it just reflects the informal nature of our service. I'm required to decide matters quickly and with minimum formality. But I want to assure Miss W and LCCU that I've reviewed everything on file. And if I don't comment on something, it's not because I haven't considered it. It's because I've concentrated on what I think are the key issues. Our powers allow me to do this.

LCCU lent money to Miss W through a personal loan agreement and our service can consider complaints relating to these sorts of agreements.

I need to decide if LCCU acted fairly by transferring Miss W's savings to the loan. I also need to think about how LCCU dealt with Miss W's request to enter into a payment arrangement. And I need to decide if LCCU needs to do anything else to put things right.

LCCU has now supplied a copy of two loan agreements. I think it's important to note the most recent agreement prominently sets out:

I/We agree that all monies held in the Saver Plus Account at the time of the loan and any subsequent deposits made to the Saver Plus Account are held to secure repayment of the loan and cannot be withdrawn until you have more savings than your loan or the loan is repaid in full. In case of default in payment as agreed, the entire balance of the loan shall become due and payable at the option of LCCU. I/We pledge all monies held now or hereafter with LCCU on my/our Saver Plus Account (or any other savings account held by me/us with LCCU) is held to secure repayment of the Loan together with interest costs and expenses and I/We hereby authorise LCCU to apply such funds to the payment of the said loan, interest costs and expenses. Each party to this agreement, whether as borrower, joint borrower or guarantor, severally waives presentment for payments, demand, protest and notice and dishonour of same.

Taking into account what I've set out above, by entering into the agreement, Miss W agreed to allow LCCU to transfer her savings to the loan when she defaulted on repayment. I think the loan agreement defaulted when S wrote to LCCU for Miss W asking it to accept token repayments. The savings were held as security and Miss W was not able to withdraw them until she had more savings than the loan, or the loan was repaid in full. While I appreciate Miss W was in financial difficulties, I don't think LCCU acted unfairly by using the savings to clear part of the loan balance. It ultimately reduced her debt, and so there's not been a financial loss as such. I'm not intending to direct it to return the savings.

It doesn't seem to be in dispute that the way LCCU handled things has led to delays in putting the plan into place. In its response to our service, it said it accepted the delay in the processing of funds to Miss W's loan account. I can understand LCCU can't be held responsible for not receiving information from S. But it seems very unusual it wasn't until S had sent the paperwork four times that LCCU received it. Moreover, I'm conscious it had been receiving payments from S as well. Miss W was speaking to it throughout 2022 and it must have been really frustrating and worrying for it to take so long for the payment arrangement to have been set up. I don't think Miss W should lose out as a result of that.

Generally speaking, I need to consider the events that happened up to the point LCCU issued a final response, because those events are what it's had the chance to consider. I can see LCCU acknowledged a complaint in August 2022, but I've not seen its final response to the complaint. Miss W referred her complaint to the Financial Ombudsman in March 2023. What I have to bear in mind is that S first contacted LCCU in November 2021. And it took around a year for LCCU to ultimately put the plan in place and process the payments on her account. I agree it took too long. LCCU had sent debt letters to Miss W. She had to speak to it various times. And she had to also liaise with S. I don't think £100 fairly reflects the inconvenience given how long it took to sort things out. LCCU could have helped bring matters to a conclusion much sooner. I think LCCU should increase the compensation to £250. So if it's paid £100 already, it should pay a further £150.

I also agree Miss W shouldn't lose out as a result of LCCU not being able to put the plan in place until the end of 2022. I think it should make sure the payments received from November 2021 are shown as being under a debt management plan. So it will need to amend the credit file, if it's not done so already.

Finally, I've not seen an up-to-date statement from LCCU so it's not clear if it's been applying interest. Given Miss W has only been able to repay £5 per month it wouldn't seem fair if her debt is increasing through monthly interest charges if she's in financial difficulties. So, if not done so already, I think LCCU should remove all interest applied since November 2021 or let me know in response to this provisional decision why it doesn't agree. Interest shouldn't be applied going forward unless Miss W's financial situation changes and she's able to increase her payments again. LCCU should let me know in response to this provisional decision if it doesn't agree with that proposal either.

Miss W responded to say she wanted to point out she'd never rescheduled the loan in February 2020 and that she'd never owed LCCU in the region of £6,400. She said the last loan she took out was in May 2019 so there must be a mistake. But she later said it may have been she changed the monthly repayment figure. She also said LCCU had overcharged her interest and had to refund £604 to her account.

Miss W also said she understood what I said with regards to her savings but never received any debt letters from LCCU until August 2022. She said she did communicate with LCCU. She said LCCU refused to help her even once she'd provided it with reference numbers from S. She said she was happy to accept the offer but wanted note of what she'd said before a decision was made. She also supplied evidence showing her balance with LCCU was around £1,950 in April 2024, and copies of her LCCU statement from July 2022.

I can't see we've received a response from LCCU.

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.

I'd like to thank Miss W for her response. I was concerned to hear she didn't recognise the 2020 loan or owing over £6,000 to LCCU. She said she didn't borrow further after 2019. I've reviewed the loan agreement she does recognise from 2019 and can see the total amount repayable on it was around £6,600, with monthly repayments of £120. Having looked at the 2020 agreement I think, as Miss W has suggested, that this may have been when she rescheduled the loan so it had a monthly payment of £100.

In any event, I think the main two points I needed to consider under this complaint related to LCCU's actions with Miss W's savings, and how it handled things generally when Miss W asked S to help set up the plan. Miss W broadly accepted what I recommended. I've not been provided anything materially new to consider, so I see no reason to depart from the conclusions I reached in my provisional decision. If Miss W has any separate complaints, she'd need to take them up with LCCU in the first instance.

My final decision

My final decision is that I uphold this complaint and, to the extent it's not done so already, direct London Community Credit Union Ltd to:

- Pay a total of £250 compensation (£150 if it's already paid £100).
- Amend the credit file to show all payments from November 2021 being under a debt management plan.
- Remove any interest applied from November 2021.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 14 June 2024.

Simon Wingfield
Ombudsman