

## The complaint

Miss B, through her representative, complains that Hillingdon Credit Union Limited ("Hillingdon CU") trading as London Community Bank lent to her when she could not afford it.

She complains that she was given other loans which were added on to the loans she already had and she is complaining about the interest charged and the *'time paying the loan back'*.

Miss B also complains about a time when Hillingdon CU made a mistake on the interest. She got a refund and then the interest was corrected. Miss B's words are: *'To right interest of the loan I should be paying'*.

## What happened

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

On 2 October 2024 I issued a provisional decision. Mrs B through her representative has agreed to my findings. Hillingdon CU has said it has nothing further to add.

What follows in my final decision in the same terms as my provisional decision.  
Here is a loan table which gives brief details of the loans and/or top-ups approved.

Loan	Approved	Amount	Term (some corrected)	Repayment	Repaid
1	17 June 2020	£300	3 months	£103.05	11 Sept 2020 paid to zero
2	3 February 2021	£2,000	36 months - due to end 28 December 2023	£65.92	Refinanced into loan 3
3	24 September 2021	£200 new money -	34 months due to end 22 July 2024	£65.92	Refinanced into loan 4
4	23 May 2022	£200 new money	Originally 53 months due to end 28 September 2026	£65.92	Refinanced into loan 5
5	3 November 2022	£400 new money	Originally 34 weeks – then altered	£65.92	Refinanced into loan 6

6	30 June 2023	£250 new money	42 months due to end 18 December 2026	£65.92	outstanding
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I know that Hillingdon has accepted it made a mistake on loan 5 and it may have altered the loan 4 agreement following on from that. As Hillingdon CU has made no further representations about that I can safely say that it did.

On the repayment schedule and arrangements with Hillingdon CU, because it's a Credit Union, the method of repayment is different and I've explained more about what I have seen from the documents later in this decision.

Miss B, through her representative, complained to Hillingdon CU in November 2023 and received its acknowledgement of the complaint which was in the form of a final response letter (FRL) dated 29 January 2024. Hillingdon CU wrote again to Miss B on 19 February 2024 with more detail. That covered all the points it considered that Miss B was complaining about. It did not uphold her complaint.

Not content with Hillingdon CU's responses, Miss B's representative referred her complaint to the Financial Ombudsman Service in March 2024 following which one of our investigators considered the complaint. She thought that Hillingdon CU should put things right for Miss B in relation to loans 5 and 6.

Miss B's representative wrote to say that Miss B accepted our investigator's view.

Hillingdon CU disagreed and made several detailed submissions about loans 5 and 6 all of which I have read. It accepted that it had made a mistake on the loan documentation for loan 5 and having reviewed loan 4 it altered the interest rates for loan 4 as well as loan 5. It accepted that it had received '*warning signs*' as Miss B had missed a few payments on a '*couple of the credit lines*'.

Our investigator responded in detail to the points made by Hillingdon CU including having a telephone discussion with its senior representative in May 2024.

Hillingdon CU requested that an ombudsman consider the complaint so it was passed to me for a decision. I issued the provisional decision earlier this month and this is my final 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.

Hillingdon CU is a credit union regulated by the Financial Conduct Authority (FCA). I'm aware that some credit unions may not fall into the FCA's definition of a "*credit-related regulatory activity*." Hillingdon CU does.

Hillingdon CU has said that it carried out affordability assessments and creditworthiness checks when Miss B applied for her loans. I've reviewed the information it relied on before lending to Miss B. I must determine whether Hillingdon CU completed reasonable and proportionate checks to satisfy itself that Miss B would be able to repay the monthly amounts in a sustainable way.

#### ***The lending pattern and mistakes/alterations on loans 4 and 5.***

Having studied the statements of account, the loan agreements, the varying interest rates on each agreement and the new termination dates then my view is that after the £2,000 loan 2, each of the others were not top-ups. These were fresh refinancing agreements. And I say

that because the terms varied and the end date of the agreements altered to later dates than the original loan 2 end date.

As I mentioned in the introductory part of the decision, both loans 4 and 5 agreement terms altered. The interest rate was changed to 2% month and an APR to 26.8% for both. Hillingdon CU has told us that it made a refund on interest in March 2023 covering both loans 4 and 5 overpayments. I asked Hillingdon for the new terms and the new loan end dates and it was not able to provide any additional details. I note that this is part of Miss B's complaint and having studied the information I have from Hillingdon CU I consider this to be a poor turn of events for Miss B. And I fully appreciate that even though Hillingdon CU has said that it has 'corrected' the overcharged interest and refunded Miss B some money, having asked for further details of this so that I can be satisfied it was correctly done, I have not been so satisfied.

And I accept that Miss B would have been under stress and further caused additional distress by this and so I intend to award Miss B £400 compensation for this. I explain why below.

During the telephone call with the Hillingdon CU representative, which was recorded and which I have listened to, then I understand that because of this Loan 5 mistake it chose to alter the terms for loan 4 as well to be more favourable for Miss B.

Again, despite me asking for them, I've no details of this but I've considered the information that call has given me when considering the complaint. And I have to explain some details in order to demonstrate why I think that Hillingdon CU will have caused Miss B distress and inconvenience for which I consider she ought to be compensated.

The Hillingdon CU system appears to be that from 24 February 2021 (after loan 2 had been approved) Miss B paid £85.92 each month into the 'Share 1' account which is a savings account, from which £65.92 was moved to reduce her loan account. I've seen from the Hillingdon CU trading name's website (London Community Bank) that paying £20 a week into a savings account held by it for the borrower is a condition of having a loan over a certain amount. It allows Hillingdon CU to lend to other members and it says that it is

*'...a nice bonus when you have finished repaying your loan.'*

This changed in July 2022 when Miss H made two payments in that month to make up the total of £85.92 and then the money was moved over to the loan account and remained at £65.92. No payment in appeared to have been made by Miss B in August 2022. Then the payments changed to £45, £20, and £20 for September 2022 which was a total of £85. Hillingdon has explained that Miss B requested to go to weekly contributions for budgeting purposes.

The £65.92 continued to be transferred to the loan account. Then from 4 October 2022 the payments from Miss B became £20 four times a month – so roughly once a week – which added up to £80. The £65.92 continued to be transferred to the loan account. This has stayed the same until 19 April 2024 when the records I've received end.

In my provisional decision of 2 October 2024 I asked that up-to-date records be sent to me within two weeks – but none has been received.

The Statement of Account shows me that on 19 April 2024 Miss B still owed £1,586.68 despite paying either £85.92 month since 24 February 2021 until end July 2022 (17 months) and then £80 a month (with some slight variations) from 2 September 2022 to date (although the records I have stop in April 2024). Miss B has applied for additional credit since the inception of loan 2 and received £1,050 of new money.

I notice that after loan 4 at the end of May 2022, the interest being charged to the account increased a great deal from around £16 a month, to around £46 a month and sometimes was as high as £58. This was where I can see that on 23 March 2023 an interest refund was

given of £173.35 to correct the miscalculation by Hillingdon CU. After that, the interest repayments were still double the original loan interest at around £34 a month. It increased again after loan 6. In March 2024 the interest charged was £45.13.

This means that often Miss B was paying either £85.92 a month into Hillingdon CU (later £80 a month) and the money being transferred to paydown the debt was £65.92 but the interest increased from around £16 to around £34 and so the net reduction in the capital loan balance was low. And the loan term end dates were being extended into the future even when the refinancing effectively only released a small amount of additional funds.

For instance, £200 of fresh funds were given to Miss B at loan 4 yet the loan end date became 28 September 2026 and the new amount to pay (including interest) was £3,491. Whereas before the new loan 4 her Loan 3 agreement said that the total to repay (including interest) was £2,199.70 and due to end 22 July 2024 .

In my view, this was not what she applied for in May 2022 (loan 4) and this would have been confusing and in my view a worry to Miss B to see her overall outstanding sums increasing in this way. I understand from the information I have that Miss B noticed the mistake in Loan 5 and requested that it be corrected.

Added to which, the payment methods and the new terms meant that Miss B has been making very little inroads into the capital balance owed to Hillingdon CU. But I note that on 19 April 2024, Miss B had £654.40 in the 'Share 1' savings part of her account.

So, having read what Miss B has said through her representative, I accept that she has been caused distress and inconvenience with all of this and certainly surrounding the Loan 5 mistake and the alteration to the terms of loan 4 and loan 5. Although I appreciate she'd had a refund of interest, I also consider that the £400 compensation element I intend to award her goes towards compensating her for that.

### *Irresponsible lending*

I have decided to review all of the loans because it has come to me as a fresh complaint and so I have reviewed them all.

#### *Loan 1.*

I do not uphold the complaint about loan 1. Miss B was a new customer to Hillingdon CU. I've reviewed the details Miss B gave to it when she applied. She told Hillingdon CU that she was living with her parents in June 2020, she earned £950 a month as a part time employee, plus she received £33 tax credits. Miss B gave her outgoings as £293 and told it that she had around £1,350 on a credit card that she was paying down by around £50 a month.

Miss B supplied to Hillingdon CU bank account statements for the period 27 April 2020 to end of May 2020 and reviewing them I can see that Miss B did have other credit commitments to the one she declared in her application form. But even if Hillingdon CU had reviewed those in detail I think it likely would not have altered its decision to lend.

I see that it was a relatively short loan term for a relatively modest sum £300 over 3 months - and was repaid without issue. I do not uphold the complaint about loan 1.

#### *Loan 2.*

Several months after repaying loan 1, Miss B returned and applied for a larger loan of £2,000 in February 2021. She applied for the term to be 26 months but the agreement I have seen states 36 months and I do not know why that was done. Miss B declared a similar income to that for loan 1 from her part time employment - £930 each month after tax.

She supplied some payslips so Hillingdon CU could be confident in the accuracy of her declared income.

Her outgoings were more than before at a declared amount of £350.45 each month. This figure included rent, council tax, bills, insurances, broadband costs, food, phone, and travel

costs. It also included a figure for credit commitment of £45 per month. . I have outlined the repayment arrangements earlier in this decision.

I have reviewed the information Hillingdon CU obtained from Miss B at the time and before it made a lending decision. These were payslips and some bank account statements for the period from 2 November 2020 to 31 December 2020. Having looked at these then I can see that Miss B was over-indebted.

Miss B had commitments to two home credit loans at £10 a week and £5 a week which translate into around £65 each month. But I can see that these were not always being paid and so likely this was the account she was in arrears for and this seems to be supported by the credit check results Hillingdon CU received and which I come on to below.

Miss B was paying another credit union £39 each month, three high-cost loans which were costing her around £163 a month together, three credit cards to which she paid £221 in December 2020, and two other home credit lenders at around £77 a month combined. These all added up to £565 a month.

In addition to the items I have listed above, Miss B had signed up to a type of credit which allowed her to drawdown money and the lender recouped the costs by debiting her account when it was in credit. I am familiar with this product.

Examples are – Miss B borrowed £80 from it in early December 2020 and £95 was taken to repay it the next day. On 17 December 2020 she drew down £95 and that lender took £111 from the account on 18 December 2020 and on 24 December 2020 she took £95 and repaid £101 on 29 December 2020. Having to borrow on that facility three times in a month and repay it as well was a difficult commitment on top of the other credit commitments she already was servicing.

The picture revealed in her bank statements was borne out by the credit search Hillingdon CU had obtained. Those results have been sent to us. This revealed that Miss B had carried out 31 credit searches in the previous 12 months of which seven were in the previous three months. I consider that quite high. Miss B's total revolving credit available to her was £7,160 of which she had used £4,109. Miss B had opened six new accounts in the previous six months and had an arrears marker of '2' – which means two months late – for at least one account. I think these arrears may have related to the home credit accounts. And the way that Miss B was paying her loans and taking more was an indication that Miss B was having some financial difficulties.

The £221 she had paid towards the total credit card debt in December 2020 demonstrated that she was repaying about 5% of the total balance which was effectively the minimum repayment required. That meant that Miss B was not making very large, and had no extra to make, any additional payments towards the capital on those cards and therefore they would have been difficult to pay down over time.

So, the information taken together demonstrates to me that Miss B had a high turnover in credit commitment accounts, and was servicing eight loans, three cards and had the drawdown facility on her current account as well and approached Hillingdon CU for £2,000 more. I think that the level of debt she was in was too high and taking another loan as well for £2,000 would have made her total debt to be over £6,000. Her total monthly repayments would have been £565 plus £66 (£631) for the new loan, plus the drawdown facility arrangement. Miss B was only earning £930 each month and so this was a high proportion of her income committed to repaying her credit commitments. Hillingdon CU had all this information.

On the application form for Loan 2 Miss B had declared £350 of outgoings of which £45 she said was for credit commitments. Reducing that declared living cost figure to £305 to account for the credit commitment cost, and adding it to the figures I can see she was spending on her existing credit commitments leads me to think that Miss B was not able to

afford the £66 a month for loan 2. I say that because she had £565 of credit commitment cost, £305 living costs and then a further £66 for loan 2. In addition she was using the drawdown facility from that other lender.

I listened to the call with the Hillingdon CU representative and he was saying that Miss B was in a better position than most of the applicants the credit union was used to seeing. But that does not persuade me when I see the detail I have seen about Miss B's situation at loan 2.

I uphold this part of the complaint about loan 2.

### *Loans 3 to 6*

The following refinancing arrangements all show me that Miss B was taking small amounts of new cash and her agreements were being extended by many months plus the interest was increasing. I've reviewed the other bank statements and the other credit searches Hillingdon CU obtained at different times for the period after loan 2 was approved and there's no improvement in Miss B's financial situations such that I would consider that Hillingdon CU would have considered them affordable. And each time the agreements were lengthened for a relatively small fresh cash pay out to her, then the burden of the credit agreements just got more and more.

Hillingdon CU has said that the repayments remained the same each month (around £66) and so Miss B was able to afford them. Our investigator pointed out that even if that was the case, the regular elongation of the loan end dates meant that she'd be repaying for much longer which overall would have cost Miss B more and simply kept her in debt to Hillingdon CU. Which is what has happened and I consider this to be irresponsible lending.

To illustrate this, for loan 4 in April 2022, Miss B applied for a £200 loan over 3 months. But the agreement Miss B found herself having was a new loan for £3,491 with the same repayments (just under £66) starting on 28 May 2022 and finishing on 28 September 2026. Hillingdon CU had Miss B's bank account statements for the period 1 to 31 March 2022 which reveal that her financial situation had not altered much from when she had applied for loan 2. So, I consider that had Hillingdon reviewed the information it had about her for the new loans it would have appreciated that Miss B was already over-indebted and was not able to afford these new loans.

I uphold the complaint about each of loans 3 to 6 and I direct that Hillingdon CU puts things right for Miss B in the way I have outlined below.

### **Putting things right**

I understand that one or some of the loans are outstanding. I have calculated that Miss B has received £2,000 in funds at loan 2 and a further £1,050 from loans 3 to 6. Hillingdon CU should:

- Remove all interest, fees and charges applied to Loans 2 to 6. The payments Miss B made should be deducted from the new starting balance – the £3,050 originally lent.

If Miss B has already paid more than £3,050 then it should treat any extra as overpayments. And any overpayments should be refunded to her accounting for any refunds it's already made to Miss B;

- It needs to add interest at 8% per year simple on any overpayments, if any, from the date they were made by Miss B to the date of settlement\*
- if there remains an outstanding balance then I consider that the Share 1 sums which have built up as the 'savings part' of the arrangement Miss B has with Hillingdon CU be used to pay down the balance;

- and if there still remains an outstanding balance then Miss B can continue to repay the loan at a mutually agreed payment each week or month depending on the regularity Miss B prefers
- if no outstanding balance remains after all adjustments have been made, all adverse information Hillingdon CU has recorded about all these loans should be removed from her credit file.
- if all but the last loan has essentially been repaid after the adjustments have been made then the adverse information on Miss B's credit file can be removed about those loans – loans 2 to 5.
- In addition to the above I make a money award of £400 as compensation for the distress and inconvenience stemming from the Loan 5 mistake and the loan 4 terms alterations, which, if they'd been correct in the first place, would not have led to that distress and inconvenience.

This £400 is to be paid directly to Miss B and not used to set off any debt that Miss B may owe to Hillingdon CU.

\*HM Revenue & Customs requires Hillingdon CU to deduct tax from this interest. It should give Miss B a certificate showing how much tax it has deducted if she asks for one.

### **My final decision**

My final decision is that I uphold the complaint in part, loans 2 to 6, and I direct that Hillingdon Credit Union Limited does as I have outlined in the 'putting things right' part of the decision. This includes the £400 money award.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 13 November 2024.

Rachael Williams  
**Ombudsman**