

The complaint

Mr P complains about loans provided to him by Commsave Credit Union Limited (“Commsave”) which he says was unaffordable.

What happened

The background of this complaint is well known to both parties and has been detailed by our investigator previously. So, I’ll summarise the key points I’ve focused on within my decision.

- In May 2017, Commsave provided Mr P a loan for £2,500 over a two-year repayment period. The weekly repayment was £31 deducted directly from Mr P’s wages.
- In August 2017, Mr P applied for a top-up loan of £1,750 over a two-year period. The weekly payment increased to £49.
- In September 2017, Mr P contacted Commsave to say he needed to reduce the weekly payment and he was considering entering a debt management plan. The term of the loan was extended, and the payment reduced to £42 per week. The savings built up in the account were used to do this.
- In January 2018, Mr P cleared the outstanding loan balance. He then applied for a £14,000 loan. This was declined, but Commsave offered a loan of £4,000 instead. However, the following month, Mr P got back in touch to discuss a debt management plan. And in September 2018, he explained he was in financial difficulty and the weekly payments were reduced.
- Mr P has since then asked Commsave if he can apply for further loans. He was told before further lending could be agreed, balances on all outstanding loans would need to be cleared.
- Mr P complains that the lending by Commsave was unaffordable. He says he made it clear to Commsave on several occasions that he was in financial difficulty, yet it continued to lend. He says Commsave didn’t carry out sufficient checks.
- Our investigator upheld the complaint. She didn’t think it had carried out reasonable and proportionate checks for any of the loan applications. Commsave didn’t agree and asked for the case to be considered again.

So, the complaint has been passed to me, an ombudsman to make a 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.

When someone complains about irresponsible and/or unaffordable lending, I need to consider whether the lender completed reasonable and proportionate checks to satisfy itself that the lending was affordable, and that the affordability was sustainable.

Where reasonable and proportionate checks were carried out, I need to consider if the lending decision was fair. And if reasonable and proportionate checks weren't carried out, I need to consider if the loan would've been approved if the checks had taken place. And I need to consider this for every loan.

There's no set list for what reasonable and proportional checks are, but I'd expect lenders to consider things such as the amount, duration and payments of the loan being applied for; as well as the borrowers' personal circumstances at the time of each application.

I've seen copies of the loan applications Mr P made, and the household income and expenditure he declared each time. Commsave has said it considers household income and expenditure as part of affordability where both are included on the application. But I've looked at the applications and loan agreements, and they are only in Mr P's name – not his partner's. So, I have to consider whether it was fair for Commsave to consider household income on a sole named loan.

In making his complaint to us, Mr P has admitted that he had a gambling addiction at the time and so on the applications he included his partner's income in the hope it would mean the loans were approved. He said she had no knowledge of the loans he was taking out and wasn't making any payments towards them. From what I've seen Commsave didn't ask for any information related to her income and she wasn't named on the application or making any contribution to the loan. So, in this case I don't think it was fair or reasonable for Commsave to take into account *her* income when assessing *his* affordability.

When Mr P applied for the May 2017 loan, he said it was for furnishings, but he has since admitted to us he used it for gambling. He declared his expenditure as £410. However, in assessing the application Commsave found there was an outstanding debt for another loan – company F, with a balance of £9,686 and monthly payments of £367. Mr P says he didn't declare this as he wanted his expenditure to appear as low as possible.

Commsave updated the expenditure to reflect this but didn't question it or ask for any bank statements or wage slips to support the application. Commsave has shown us under its lending policies, it doesn't ask for bank statements if the application is below a certain amount. However, as it knew Mr P's application wasn't accurate by at least £367 (which is substantial to his declared £410 outgoings). I think Commsave in this case should've requested more information such as bank statements to check whether there were other expenditures from his account that hadn't been declared in the loan application. So, I'm not persuaded Commsave completed reasonable and proportionate checks in the circumstances of this application.

Also, just a few months later Mr P applied for a top-up loan and again his partner's income is included and his £367 expenditure for the loan isn't declared. This time Mr P told Commsave the loan was for cars and motorcycles he has since told us it was used for gambling. Again, Commsave didn't request any further information to assess the loan application. And knowing Mr P hadn't included the debt again, it's unclear to me why it didn't question this further especially when topping up the loan so soon from granting the previous loan.

Within a month of this loan being agreed Mr P told Commsave the weekly payments were unaffordable, and he was in discussion with a debt management charity about setting up a debt management plan. This does indicate to me that this loan was unaffordable. Commsave explained it would need to receive the proposal from the charity before taking any action. But it arranged to reduce the weekly payments.

Moving onto the January 2018 application. I can see Mr P cleared the Commsave loan balance of £3,251.29 – he has told us his parents lent him the money. Mr P made

Commsave aware he did this as he wanted to apply for another loan. The next day he applied for a £14,000 loan. This time he told Commsave the loan was for credit cards and loan consolidation – Mr P said he was using the funds to clear the loan from company F and the remaining balance was going to be used for a new car.

Mr P was asked to provide bank statements and wage slips for this application which he did. Commsave declined the £14,000 application, but instead offered a £4,000 loan.

Again, I've looked at what Mr P declared on his application and it shows his partner's net pay and he also declared his monthly net pay as £1906.66 however looking at the wage slips for December 2017 and January 2018, they show weekly payments of approximately £300-£400 each week, this is less than the amount declared. I can't see Commsave questioned this.

Having looked at Mr P's credit report for January 2018 it showed the following:

- Under indebtedness indicators: a balance of £18,555
- A default within the previous 12 months
- 7 accounts opened in the last 6 months
- 31 searches on his credit report in the last 12 months

Our investigator asked Commsave why given this information, it didn't carry out further checks. It said it isn't unusual for its members to have some adverse information on their credit files. It also said the loan was issued on a condition that no further top up loans would be offered until the loan was repaid.

The expenditure declared on the application for loans and credit cards was for £379 where in reality this was nearer to £800 per month. He was also in arrears on one of his loans. I can see Commsave did consider actual expenditure rather than declared but I think this should've raised concerns as to why Mr P wasn't telling the truth about his expenditure on his application forms. I also think Commsave should've questioned further why Mr P had applied for two loans within six months for the same purpose - purchasing a new car.

I've also considered that Commsave were already aware in September 2017 that Mr P was in financial difficulty – although I appreciate it didn't receive a debt plan following that conversation. But just one month after taking this £4,000 loan Mr P contacted Commsave again to discuss a debt management plan as he said he had split from his partner. I'm therefore persuaded that this loan was also unaffordable as this happened so soon after the loan was granted.

I understand Commsave are entitled to rely on the information Mr P supplied - and it wasn't aware of his gambling addiction. But common warning signs that someone may have a gambling problem include borrowing money on a regular basis, having several loans at one time and hiding what the money is being used for. Commsave were aware that Mr P was asking for loans in quick succession. I appreciate Commsave's underwriting criteria might be that it didn't *have* to ask for documents such as wage slips and bank statements. But given that it appears Mr P was trying to hide his debt, so the loan application was agreed, it would've been reasonable in *this* case for Commsave to ask for more information such as bank statements. If it had it would've highlighted his outgoings. I appreciate it wouldn't have highlighted the gambling, but it would've shown lots of transfers between Mr P's different accounts and I would've expected Commsave to have questioned this further.

Overall, I'm not persuaded Commsave carried out reasonable and proportionate checks for any of the loan applications. Mr P continually didn't declare his full expenditures about loans

on his application forms and albeit Commsave may have taken into account correct expenditure and it was within the tolerances it expected it doesn't mean Commsave shouldn't have considered the applications fully, especially given that it knew Mr P was considering a debt management plan (and so was in financial difficulty). But despite this, it went on to offer a further loan (albeit for a smaller amount than he had applied for) just four months later. Mr P's credit report showed larger credit balances than declared in the January 2018 application, and his bank statement showed many transfers to other accounts. I think that if Commsave had questioned this, it wouldn't have thought Mr P could sustainably repay the loans. As a result of Commsave not doing this, I think Mr P found himself in a more difficult financial situation causing him stress and upset.

Putting things right

To put things right I direct Commsave Credit Union Limited to;

- Remove all interest and charges applied from the start of each loan This will mean a new starting balance of only the amount that is lent, and from that Commsave should deduct payments already made. If this results in Mr P having paid too much, those overpayments should be refunded to Mr P, with 8% simple interest¹ from the date of calculation.
- If there is an outstanding balance, then this should be written off.
- Pay Mr P £250 compensation for the stress and upset. Commsave must pay the compensation within 28 days of the date on which we tell it Mr P accepts my final decision. If it pays later than this, it must also pay interest on the compensation from the date of my final decision to the date of payment at 8% a year simple.

¹HM Revenue & Customs requires Commsave Credit Union Limited to take off tax from this interest. If it deducts tax it must give Mr P a certificate showing how much tax, it's taken off if he asks for one.

My final decision

For the reasons given above I uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 21 July 2021.

Angela Casey
Ombudsman