

The complaint

Mr S complains that North Edinburgh and Castle Credit Union Ltd (trading as Castle Community Bank) was irresponsible to lend to him.

What happened

Mr S was approved for the following loan from Castle Community Bank in April 2023:

<u>Loan</u>	<u>Date</u>	<u>Amount</u>	<u>Term</u>	<u>Repayment</u>
1	30 Apr 2023	£10,500	60m	£290.77

Mr S says that, at the time of the lending, his credit file would have shown significant existing debt and indicated he was unable to afford further financial commitments. He says this has negatively impacted both his finances and his mental health. Mr S adds that he was also dissatisfied with the way in which Castle Community Bank responded to his complaint.

Castle Community Bank says it carried out a credit worthiness check and affordability assessment and that there was nothing to indicate the loan was unaffordable to Mr S. However, it agreed that it was late to respond to Mr S's Subject Access Request, and his complaint, and offered him £100 for that.

Our investigator recommended the complaint should be upheld. He wasn't satisfied that Castle Community Bank had carried out proportionate checks and, had it done so, he considered it would have found the lending was unaffordable.

Castle Community Bank responded to say, in summary, that Mr S said the loan was for consolidation purposes and, based on his verified income, and an assessment of his other costs, the loan was affordable.

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 need to take into account the relevant rules, guidance and good industry practice.

Bearing this in mind, in coming to a decision on Mr S's case, I have considered the following questions:

- Did Castle Community Bank complete reasonable and proportionate checks when assessing Mr S's loan to satisfy itself he'd be able to repay it in a sustainable way?
 - If not, what would reasonable and proportionate checks have shown?

- Did Castle Community Bank make a fair lending decision?
- Did Castle Community Bank act unfairly or unreasonably in some other way?

I have considered the information from the checks carried out by Castle Community Bank:

- The loan was for debt consolidation;
- Mr S's monthly income was about £2,200, as validated by Castle Community Bank;
- Castle Community Bank assessed Mr S's rental payments to be £423 per month, and his living costs to be £616 based on his circumstances (age, income, residential status and region);
- It showed nine active credit accounts with a monthly credit commitment of £894;
 - Castle Community Bank reduced this to £760 due to planned consolidation;
- There was no adverse information on Mr S's credit file;

This left Mr S with a calculated disposable income of around £400 and so Castle Community Bank found the repayment of £291 per month was affordable to him.

However, I'm not satisfied these checks went far enough for the loan because:

- The loan was for a period of 60 months and Castle Community Bank needed to be sure the repayments were sustainable for that period;
- Mr S was already committed to paying around 40% of his income to credit repayments – even taking into account a reduced payment due to planned consolidation, this figure was almost 35%;
 - With the new loan this rose to 48% (or as much as 54% without any consolidation);
- Although the calculations carried out by Castle Community Bank show Mr S would be left with around £100 per month for unforeseen expenditure, this is unlikely to be sustainable for five years.

So, I've had a look at Mr S's bank statements from the time as a reasonable proxy for what proportionate checks may have shown and found:

- Mr S's income was in line with the figure used by Castle Community Bank;
- There were payments in and out of the account from Mr S's partner which, over three months averaged out as a net income of around £600 monthly;
- Mr S's rent was £1,265 per year;
- I could see regular monthly expenditure on council tax, television, phone, car tax and other costs of around £300;
 - This figure excludes food and travel expenditure;

Excluding the income from Mr S's partner, which was not guaranteed, and taking Castle Community Bank's lower credit commitment figure of £760, this leaves Mr S at a deficit of £125 before food and travel are considered. Using the existing credit commitments of £894, this deficit becomes £260 with food and travel excluded. Even with additional income from Mr S's partner, a further loan repayment of £290 is unaffordable. So, I find further lending was unsustainable for Mr S, even if the money was used to consolidate some existing debt.

I also acknowledge that Castle Community Bank could have provided better customer service to Mr S, but I find the £100 it has already offered for this to be fair and reasonable.

In summary I do not find Castle Community Bank made a fair lending decision, but that its offer for the inconvenience caused by its poor service is reasonable.

Finally, I've also considered whether Castle Community Bank acted unfairly or unreasonably in any other way, including whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr S in the circumstances of his complaint and I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

My decision is that I uphold this complaint. North Edinburgh and Castle Credit Union Ltd (trading as Castle Community Bank) should:

- Add up the total amount of money Mr S received as a result of having been given the loan. The repayments Mr S made should be deducted from this amount:
 - If this results in Mr S having paid more than he received then overpayments should be refunded along with 8% simple interest (calculated from the overpayment date until the date of settlement)*. Castle Community Bank should also remove adverse information about this loan from Mr S's credit file;
 - If any capital balance remains outstanding, then Castle Community Bank should arrange a suitable payment plan with Mr S. Once Mr S has cleared the balance, any adverse information should be removed from his credit file.
- Pay Mr S £100 for the poor customer service, as it has offered to do.

*HM Revenue & Customs requires Castle Community Bank to deduct tax from this interest. Castle Community Bank should give Mr S a certificate showing how much tax it's deducted if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 22 July 2024.

Amanda Williams

Ombudsman