

The complaint

Mr B complains that North Edinburgh and Castle Credit Union Limited trading as Castle Community Bank (CCB) didn't check he could afford a loan they agreed to.

What happened

In October 2023 Mr B took out a £6,000 loan with CCB. The fixed sum loan agreement was for a period of 48 months. After interest and charges were applied the total amount repayable was £10,224.45 at £212.53 a month. Mr B said CCB hadn't checked whether the lending was affordable for him. And if he'd known the interest was applied on a daily basis he wouldn't have taken out the loan.

CCB said they'd completed full creditworthiness and affordability checks and there wasn't anything to show Mr B couldn't sustain the repayments. They said they'd sent Mr B the agreement and he'd agreed to their terms and conditions.

Mr B wasn't happy with CCB's response and referred his complaint to us.

Our investigator said CCB's checks had been proportionate and reasonable and that their decision to lend to Mr B was fair.

Mr B didn't agree and asked for an ombudsman to decide. Mr B hasn't provided any further details for the ombudsman to consider.

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 understand Mr B's frustration as he doesn't think CCB sufficiently checked his financial situation before they agreed to lend to him. But having done so I'm not upholding Mr B's complaint. I'll explain why.

A Credit Union is a non-profit-making lender owned by their members. They are run on a 'not for profit' basis; which means any money made is returned to their members or used to improve services.

CCB as a credit union is regulated by the Financial Conduct Authority (FCA). The FCA's Credit Unions Sourcebook (CREDS) sets out the FCA's regulatory rules and guidance which apply to credit unions. Credit unions are registered under the Co-operative and Community Benefit Societies Act 2014 and operate under the Credit Unions Act 1979.

Their loan agreements are in general exempt and their activities dependent on their role aren't subject to the rules and guidance in the FCA's Consumer Credit sourcebook (CONC) including rules and guidance on responsible lending. But their lending policy should consider the conditions for and amounts of loans to members and the handling of loan applications. In other words, the FCA requires that CCB's lending policy should be prudent and should be applied in a manner which protects CCB's members. And Mr B had to become a member to

be accepted for the loan.

So, I've considered the checks CCB carried out.

CCB said they carried out an affordability assessment and creditworthiness check when Mr B applied for his loan. They said Mr B declared his annual salary to be £31,500 and they verified this amount through a credit reference agency (CRA) check. They also checked Mr B's credit file which they said showed Mr B's credit commitments inclusive of the new lending to be £406.70, his expenditure £560.49 and his monthly rent £420. Meaning Mr B would have outgoings of £1,387.19. They also said Mr B was using the loan for debt consolidation. So, based on this they deemed the lending was affordable for Mr B.

CCB has provided detail of their assessment and application data. This showed Mr B had an unsecured debt to income ratio of 35.4%. It verified Mr B's declared income. And that Mr B's credit file didn't show any signs of financial vulnerability such as missed payments or financial difficulty. I think the checks done by CCB were proportionate as they'd taken steps to assess Mr B's income and outgoings to determine whether he could afford the lending. So, I've considered whether their agreement to lend to Mr B was a fair one based on what they saw.

Mr B has provided a credit report created July 2024. This shows Mr B had three loans with a monthly commitment of £215, a hire purchase agreement £137 a month, four active credit cards with a total credit limit of £5,500, with balances totalling around the time of the lending of about £1,500. As well as accounts for communications, insurance, utilities, and a current account. All the accounts were being managed well. I can see Mr B had defaulted on an account in 2019 over 48 months prior to this lending and the outstanding balance had been settled. I can also see from other information provided by Mr B that his rent was around £435 a month. So, the assessment carried out by CCB is fairly reflective of Mr B's financial circumstances at the time of the lending.

Mr B had applied for the loan on the basis it was for debt consolidation, and I can see from this report that one of his loans for £162 was settled the following month. So, I can't say CCB did anything wrong in agreeing to lend to Mr B as from the evidence they gathered Mr B had sufficient disposable income to sustain the repayments.

Mr B has said he wasn't aware of the interest CCB would charge or that it would be charged on a daily basis. He said if he had he wouldn't have agreed to take out the loan.

CCB has shown they sent Mr B a copy of the agreement and their terms and conditions by email at the time of the lending. And that they're unable to disburse the funds until the agreement has been signed as their electronic controls won't allow for this. Mr B has said he didn't receive the agreement, but CCB has shown this was sent to the email address they gathered in their application data, and I can see from their data that the email address had been validated. Also, the funds were disbursed to Mr B so I've no reason to doubt the agreement was sent.

I can see from the agreement that it shows what the Annual Percentage Rate (APR) for the loan was. And it explains: *"Interest accrues daily at the Simple interest rate and is applied monthly to the balance of your loan account, as reduced by your scheduled repayments."* So I can't say that Mr B would have been unaware of the interest that was being applied to the loan amount.

I've also considered whether CCB acted unfairly or unreasonably in some other way given what Mr B has complained about, including whether their relationship with him might have been viewed as unfair by a court under s.140A Consumer Credit Act 1974. But for the

reasons I've already given, I don't think CCB lent irresponsibly to Mr B or otherwise treated him unfairly. I haven't seen anything to suggest that Section 140A or anything else would, given the facts of this complaint, lead to a different outcome here.

I understand Mr B will be disappointed by my decision. But I can't say CCB has acted unfairly or unreasonably in agreeing to lend to him.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 25 November 2024.

Anne Scarr
Ombudsman