

Complaint

Miss M has complained about a loan Manchester Credit Union Limited (“MCU”) provided to her.

She says that being provided with this consolidation loan freed up other credit that became accessible to her.

Background

MCU provided Miss M with a loan for £13,938.46 in July 2023. This loan had a 48-month term and was due to be repaid in monthly instalments of £373.

One of our investigators reviewed what Miss M and MCU had told us. And she thought that MCU hadn’t done anything wrong or treated Miss M unfairly. So she didn’t recommend Miss M’s complaint be upheld.

Miss M disagreed and asked for an ombudsman to look at her complaint.

My findings

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

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Miss M’s complaint.

Having carefully considered everything, I’ve decided not to uphold Miss M’s complaint. I’ll explain why in a little more detail.

It’s important to note that Miss M’s agreement was unregulated and so MCU’s obligations aren’t exactly the same as those for most lenders. In particular, as it is a Credit Union, MCU’s specialist sourcebook is the Credit Unions sourcebook (“CREDS”) rather than the Consumer Credit Sourcebook (“CONC”), given it wasn’t carrying out credit-related regulated activities when providing this loan to Miss M.

Nonetheless, as it is a firm authorised by the Financial Conduct Authority (“FCA”) and it was lending funds that it had received from its members, I consider it fair and reasonable to expect MCU to have carried out reasonable enquiries into Miss M’s circumstances to check that she’d be able to make the payments to this loan.

I’d also only expect it to have proceeded with Miss M’s application in the event that those reasonable enquiries demonstrated that she could make the required monthly payments. After all, there had to be a reasonable expectation that it would be able to recover the funds being lent.

I’ve kept this context in mind when reviewing Miss M’s complaint.

MCU says it agreed to Miss M's application after she provided details of her income. It says it also carried out a credit check to assess Miss M's existing indebtedness and used statistical data to get an idea of Miss M's regular living expenses. In its view, this information showed Miss M could afford to make the repayments she was committing to.

Miss M says this loan was additional borrowing that was unaffordable for her and which shouldn't have been provided bearing in mind her circumstances.

I've carefully thought about what Miss M and MCU have said.

The first thing for me to say is that this isn't a case of a MCU simply asking Miss M's declarations at face value. MCU not only asked Miss M for details about her income, which she was required to provide evidence to support it also carried out a credit check to assess Miss M's indebtedness.

While I accept that Miss M might not agree with this, I don't think that these were excessive. This is especially as I can't see that Miss M had any significant adverse information – such as defaulted accounts or county court judgments – recorded against her.

I'm also mindful that the purpose of Miss M's loan application was debt consolidation. Furthermore, MCU didn't just rely on an undertaking from Miss M that would pay off her existing balances, it actually directly settled these accounts with her existing creditors and didn't provide Miss M with any new funds. MCU's actions therefore eliminated the risk of Miss M using the funds for purposes other than to consolidate her existing debts. In these circumstances, I'm satisfied that MCU didn't increase Miss M's indebtedness.

I'm also satisfied that the proceeds of this loan cleared a significant proportion of the existing debt that Miss M had, which she is now arguing meant that she shouldn't have been provided with this loan. It's also worth noting that this loan had a lower rate of interest than most of the balances Miss M was consolidating and so would reduce her monthly outgoings towards repaying credit going forward.

Indeed, in Miss M's email exchange with MCU prior to her loan being approved she told it *"As you can see in the list, some of these debtors are extremely high interest loans – it would be great for me to take control of them and make manageable payments instead"*. I think that MCU was reasonably entitled to believe that Miss M would be left in a better position after being provided with this loan.

Equally, this was a first loan MCU was providing to Miss M, there wasn't a history of Miss M obtaining funds for consolidation purposes and then returning for further borrowing afterwards. I've seen what Miss M has said about previously taking consolidation loans and her indebtedness increasing. But MCU wouldn't have had the same granularity of detail on Miss M's previous borrowing that she has seen on her full credit report.

The purpose of Miss M's previous loans won't have been recorded on the credit searches carried out either. So I don't think that it was a case that MCU ought to have been aware that Miss M may have previously failed to consolidate her debts after making commitments to previous lenders.

I also appreciate that Miss M has said that this loan freed up other credit that became accessible to her. I can only assume that Miss M is referring to being able to re-establish further balances on her revolving credit accounts once they were cleared. I've assumed that this is what Miss M means by her indebtedness being increased even though MCU paid her creditors rather than gave her any additional funds.

However, MCU could only make a reasonable decision based on the information it had available at the time. MCU won't have known Miss M would go on to accrue further balances on the repaid accounts. All MCU could do was take reasonable steps to ensure the balances would be repaid, which for the reasons I've explained I think it did, it couldn't close the accounts in question because they were held with other providers.

Miss M was the only party with the authority to close her existing accounts, once the balances being cleared left her in a position to be able to do so. Furthermore, if Miss M is unhappy at the fact that she was allowed to continue using her revolving credit accounts after the balances were cleared, this is a matter that she needs to take up with the revolving credit providers rather than MCU.

For the sake of completeness, I'd also add that MCU was only able to consider whether any borrowing it provided was affordable for Miss M. It wasn't authorised to advise Miss M on other options, or whether seeking arrangements with her existing creditors might have been better for her. I'd also add that MCU wasn't a member of the Lending Code, which, in any event, does not apply to Credit Unions – such as MCU - either. Miss M would have needed to contact a debt service, rather than a credit union for such assistance.

There is an argument to say that, at the absolute most, MCU ought to have found out more about Miss M's actual regular living expenses, rather than relying on statistical data, bearing in mind the monthly payment and the term of this loan. However, the information provided doesn't show me doing so would have resulted in MCU making a different lending decision as even with this information and the lowest amount Miss M has quoted for her income, the monthly payments appear affordable.

I accept that Miss M's circumstances may well have worsened after she took this loan as a result of failing to close her revolving credit accounts. I'm sorry to hear what Miss M has said about her difficulty making payments. But the key here is that it's only fair and reasonable for me to uphold a complaint in circumstances where a lender did something wrong. And I don't think that MCU could possibly be expected to have known that the payments to this agreement were unaffordable.

Finally, in reaching my conclusions, I've also considered whether the lending relationship between MCU and Miss M might have been unfair to Miss M under section 140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I don't think that MCU irresponsibly lent to Miss M or otherwise treated her unfairly in relation to this matter. And I haven't seen anything to suggest that section 140A CCA if applied or anything else would, given the facts of this complaint, lead to a different outcome here.

So I'm not upholding this complaint. I appreciate this will be very disappointing for Miss M - particularly as she feels strongly about this complaint. But I hope she'll understand the reasons for my decision and that she'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Miss M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 14 July 2025.

Jeshen Narayanan

Ombudsman