

The complaint

Miss M is complaining that First Rate Credit Union Limited (FRCUL) lent to her irresponsibly by providing her with a personal loan.

What happened

In December 2023, Miss M applied for a loan with FRCUL. They lent her £9,000 over a five-year term. The loan required Miss M to make 60 monthly repayments of around £203.

Miss M complained to FRCUL in August 2024, saying they shouldn't have given her the loan as it was unaffordable. When she did so, she said she had poor credit at the time and took out the loan to consolidate other debts. She said a full investigation into her finances would have shown that she was having trouble managing them. She also asked for forbearance – suggesting FRCUL freeze the interest on her loan and give her breathing space to seek advice.

FRCUL responded, saying they had carried out appropriate checks before lending to Miss M. They said she'd applied for £15,000 and they'd agreed to lend her £9,000 to pay off an existing loan which was at a higher rate of interest. FRCUL said before lending to Miss M they'd reviewed Miss M's credit file and carried out some automated checks. They said they also use bank statements or open banking to determine income and expenditure levels and affordability. FRCUL said they wouldn't have granted the loan for any purpose that would have increased Miss M's overall debt levels and monthly outgoings. But they noted that if it had been used for its intended purpose it would have improved Miss M's financial situation. And they said they'd consider a formal application for breathing space if needed. They didn't uphold Miss M's complaint.

Miss M wasn't happy with FRCUL's response, so she brought her complaint to our service. She said at the time of her application, she'd already taken out two consolidation loans, had maxed out her overdraft and had multiple payday loans. She said she didn't realise consolidation loans were additional debt. And she said FRCUL were hesitant to give her the loan. She said the FRCUL loan hadn't improved her finances, and it had meant she had to pay it off over five years instead of the two and a half that remained on the loan it was intended to replace. Finally, she said she couldn't afford having unpaid debts due to the nature of her job, which meant she had to keep borrowing more to make sure she paid her creditors on time each month.

Miss M was also unhappy FRCUL hadn't taken her request for forbearance seriously and had just signposted her to debt charities.

One of our investigators looked into Miss M's complaint but didn't uphold it. Our investigator said because of the payday loans Miss M had taken out, they didn't think FRCUL had done enough checks before lending to Miss M. But, looking at Miss M's credit report and bank statements, our investigator thought the loan repayments appeared affordable and FRCUL could have fairly decided to lend to Miss M. And our investigator said it was fair for FRCUL

to assume Miss M would be using the loan to consolidate existing debt, as she'd said that's what she'd do. So, our investigator didn't think Miss M's complaint should be upheld.

Miss M disagreed. She said there was evidence FRCUL hadn't wanted to give her a loan to start with. And she didn't think they should have given her this loan when she had such high debts and had only recently consolidated other debts. She said she hadn't used the loan as intended and instead consolidated credit cards, meaning that it was additional debt rather than replacing existing debts. She said she'd had other complaints about irresponsible lending from around the same time upheld, so didn't understand why this one hadn't been. Miss M asked for an ombudsman's decision, and the matter's come to me.

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.

Having done so, I'm not upholding Miss M's complaint for broadly the same reasons as our investigator. I appreciate that this will come as a disappointment to Miss M, but I haven't been persuaded FRCUL lent irresponsibly to Miss M when they approved her loan – I'll explain why below.

I've not looked into Miss M's complaint that FRCUL didn't take her request for forbearance seriously as FRCUL haven't been given the opportunity to respond to this complaint point – Miss M needs to take this up with FRCUL first. I'd also like to note that each complaint is decided on its own merits, taking into account the facts and circumstances of that specific matter. So just because Miss M has had other irresponsible lending complaints upheld doesn't mean they should all be upheld.

What's required of credit unions when lending?

Miss M's loan agreement with FRCUL is an exempt agreement, and therefore not subject to all the usual consumer credit regulations. But FRCUL is subject to the provisions set out in the Financial Conduct Authority's (FCA) Credit Unions Sourcebook (CREDS).

Chapter 7 of CREDS says a credit union must maintain and implement a prudent and appropriate lending policy and that this should consider the handling of applications for lending. And it says it seeks to protect the interests of credit unions' members in respect of loans to members.

Taking all this together, it's clear the FCA recommends that a credit union's lending policy needs to protect members' interests. This suggests the credit union needs to check whether a loan would be sustainably affordable for an applicant as well as the creditworthiness of that applicant – as the members' interests wouldn't be protected if the applicant later defaulted on their loan. It's therefore reasonable to assume that a credit union needs to give some consideration to an applicant's circumstances before lending to them.

Did FRCUL carry out reasonable checks?

Before lending to Miss M, FRCUL:

- Carried out a credit check;
- Obtained Miss M's payslip for November 2023, which showed her take home pay was around £3,450 per month;
- Obtained Miss M's bank statement for the month to 4 December 2023;

- Asked Miss M about her expenditure and then compared this to the information in her bank statements; and
- Assessed Miss M's disposable income using these verified income and expenditure figures.

FRCUL decided to lend Miss M £9,000 rather than the £15,000 she'd requested. That meant she needed to pay them back around £12,000 in total, over a period of five years. But I'm satisfied that FRCUL's checks were thorough – they obtained evidence of Miss M's income and expenditure and used this to carry out a full affordability assessment.

Did FRCUL make a fair lending decision?

Having decided that FRCUL carried out enough checks, I have to consider whether their decision to lend to Miss M was fair.

Miss M's credit file showed FRCUL that she had total debts of nearly £30,000, made up of around £23,300 in loans and £6,000 in revolving credit such as credit cards. It showed she hadn't missed any payments in the preceding twelve months or defaulted on any accounts in the preceding three years. It also showed that she had used short-term "payday" lending on several occasions earlier in the year, with the latest being in July 2023. And it showed Miss M had taken out a significant loan with a different credit union in July 2023. In summary, the credit file suggested Miss M wasn't in immediate financial difficulties, but had been quite reliant on debt at times during the preceding twelve months.

Miss M also provided evidence that she had a car finance agreement in addition to the debts on her credit file. I can't say FRCUL should have been aware of this as it wasn't reported on the credit report they obtained. But the monthly payment appears on her bank statement, and it looks like this was included in FRCUL's estimate of Miss M's monthly spending.

When it came to the affordability assessment, Miss M told FRCUL her monthly expenditure was around £1,870. FRCUL revised this figure up to £2,700, and added in £200 per month in "notional expenses" – a buffer to manage emergencies and other unexpected spending. I've looked at the bank statement Miss M provided to FRCUL and I'm satisfied the level of non-discretionary expenditure FRCUL estimated from this was reasonable. FRCUL calculated Miss M's disposable income was therefore around £550 per month. As this would leave Miss M with around £350 per month after making the repayments to FRCUL I can understand why FRCUL decided the loan was likely affordable.

Miss M said it should have been apparent to FRCUL that lending further to her would increase her financial difficulties. But she had told them that she would use the loan to pay off an existing loan at a higher interest rate (20% as opposed to around 13%) and some of her credit cards at a rate of 20% to 30%. FRCUL were entitled to expect that Miss M would do as she'd said and that their loan would improve her financial position, reducing her monthly payments.

So, taking all this together, I'm satisfied FRCUL made a fair lending decision. They gathered a significant amount of information about Miss M's financial circumstances, asked her what she intended to consolidate, and calculated that the loan repayments were likely affordable given her income and non-discretionary spending.

Did FRCUL treat Miss M unfairly in any other way?

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think FRCUL lent irresponsibly to Miss M or otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

My final decision

As I've explained above, I'm not upholding Miss M's complaint about First Rate Credit Union Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 8 September 2025.

Clare King
Ombudsman