

The complaint

Mr K is complaining that Brent Shrine Credit Union Limited trading as My Community Bank (MCB) acted irresponsibly in lending to him. His complaint has been handled by a representative, but for ease I've written as if we've dealt directly with him throughout.

What happened

In January 2020, Mr K applied for a loan with MCB. They lent him £10,000 over a five-year term, with monthly repayments of around £244 throughout. He made his repayments on time initially but missed some payments in 2023 and the account then defaulted.

Mr K complained to MCB in July 2024. He said they hadn't properly checked he could afford the repayments needed for the loan.

MCB didn't uphold Mr K's complaint. They said they'd carried out appropriate checks before lending to Mr K and were confident they'd lent responsibly to him.

Mr K remained unhappy and brought his complaint to our service. One of our investigators looked into Mr K's complaint and thought it should be upheld. In summary, she thought MCB hadn't done enough checks, and if they had, she said, they wouldn't have been able to fairly decide to lend to Mr K. MCB disagreed. They said the loan term and repayment amount weren't enough to justify further checks. They asked for an ombudsman's decision – and the complaint'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 upholding Mr K's complaint for broadly the same reasons as our investigator. I'll explain further below.

What's required of lenders?

Mr K's loan agreement with MCB is an exempt agreement, and therefore isn't subject to all the usual consumer credit regulations set out in CONC. But it is subject to the provisions set out in the FCA's 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. In addition, MCB's website says: "*we only lend what you can afford to pay back*". So, in summary, it's reasonable to assume that before providing this loan MCB needed to consider Mr K's financial circumstances and the affordability of the loan for him.

Did MCB carry out enough checks?

MCB carried out their usual automated checks before approving Mr K's loan. This included a review of his credit file, automatically verifying his income using a credit reference agency, estimating his cost of living using Office for National Statistics data, and estimating his disposable income.

MCB found Mr K had no recent missed payments, recent defaults, or other recent adverse information on his credit file. Their credit report showed he had two defaulted accounts, but these both dated back to 2015. And it showed his total debts were around £16,000. So, at first glance, he didn't appear to be in any financial difficulties or overly indebted. But their credit report also showed Mr K had taken out a loan and a new credit card at the beginning of November 2019 – just two months before applying for this loan, which ought to have caused MCB some concern. And it showed he was deep into his overdraft limit of £1,000 at the time, though it appeared his overall utilisation of his credit limits across his overdraft and credit cards was less concerning, at around 60%.

In addition, when MCB calculated Mr K's disposable income, they arrived at a figure of just over £50 per month. MCB's lending policy is to apply a buffer of £50 to £200 when calculating whether a repayment will be affordable. So, they were satisfied and didn't carry out any further checks.

But I'm not persuaded. I think MCB should have done more to understand Mr K's financial circumstances – because of his recent increase in total credit, his overdraft usage, and the very low disposable income they'd had calculated. In these circumstances it wasn't appropriate to rely on the statistical estimates being accurate for Mr K – there was very little headroom for his cost of living to be higher than they'd estimated.

What would MCB have found if they'd carried out additional checks?

I can't say exactly what checks MCB should have carried out. But, as I've explained above, I think they should have taken further steps to understand Mr K's financial circumstances.

Mr K's provided bank statements for the three months leading up to the loan. These demonstrate that Mr K did have a stable income, being paid weekly and receiving around £2,400 per month.

But the statements also demonstrate that Mr K's financial situation was not stable. They show that he was deep in his overdraft from early November 2019 onwards, despite having taken out a £1,500 loan at the beginning of that month.

Mr K's statements show he was transferring money to several individuals. He's told us this was to cover contributions to housing and bills as he was spending time at different addresses. And he said he paid around £100 per week in child maintenance. It's also clear

that Mr K was borrowing from friends and family on an ad-hoc basis – initially to try to keep out of his overdraft, and then later to avoid going over the £1,000 limit.

The statements also show Mr K withdrew substantial amounts of cash – averaging well over £1,000 per month. He's told us this was to help with bills and other essentials. Given the timing and location of many of the withdrawals, it's likely much of this was actually spent on gambling. I say this because as well as the timing and location of the withdrawals, it's clear that Mr K also occasionally gambled significant amounts directly from his bank account. For example, he gambled half of the proceeds of the early November 2019 loan immediately. And there were several other significant gambling transactions across the three months I've reviewed.

On balance, then, I'm not satisfied MCB could have fairly decided to lend Mr K if they'd carried out additional checks. I think it's likely his unstable financial circumstances would have come to light and MCB would have had to conclude it would be irresponsible to lend to him.

Did MCB treat Mr K 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 (Section 140A). However, I'm satisfied the redress I've directed below results in fair compensation for Mr K in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right

As MCB shouldn't have lent to Mr K, it's not fair that they retain any interest or charges associated with the agreement. But Mr K's had use of the amount he borrowed, so it's fair he repays that.

My final decision

As I've explained above, I'm upholding Mr K's complaint. Brent Shrine Credit Union Limited trading as My Community Bank need to do the following to settle the matter:

- Rework the account removing all interest, fees and charges (not already refunded) that have been applied; and
 - If the rework results in a credit balance, refund this to Mr K along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement; or
 - If after the rework there is still an outstanding balance, arrange an affordable repayment plan with Mr K for the remaining amount.
- Once Mr K has repaid the amount originally lent (net of interest and charges) in full, remove any adverse information recorded on his credit file regarding the agreement.

* HM Revenue & Customs requires Brent Shrine Credit Union Limited trading as My Community Bank to deduct tax from any award of interest. If Brent Shrine Credit Union

Limited trading as My Community Bank consider tax should be deducted from the interest element of my award, they should provide Mr K a certificate showing how much they've taken off so that he can reclaim that amount, assuming he is eligible to do so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 20 January 2026.

Clare King
Ombudsman