

Complaint

Mr M has complained about a loan North Edinburgh and Castle Credit Union Limited trading as Castle Community Bank ("CCB") provided to him. He says that he had historic issues with debt and sufficient checks would have shown that he wouldn't be able to make the monthly payments for this loan.

Background

CCB provided Mr M with a loan for £16,040.00 in February 2023. This loan had an APR of 18.58% and had a 60-month term. This meant that the total amount to be repaid of £24,241.00, which included interest, fees and charges of £8,201.00, was due to be repaid in 59 monthly instalments of just under £400.02 followed by a final payment to clear whatever balance remained.

One of our investigators reviewed what Mr M and CCB had told us. And she thought that CCB hadn't done anything wrong or treated Mr M unfairly. So she didn't recommend Mr M's complaint be upheld. Mr M disagreed and asked for an ombudsman to look at his 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 Mr M's complaint.

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

It's important to note that Mr M's agreement was unregulated and so CCB's obligations aren't exactly the same as those for most lenders. In particular, as it is a Credit Union, CCB'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 Mr M.

Nonetheless, as it is a firm authorised by the Financial Conduct Authority ("FCA"), I consider it fair and reasonable to expect CCB to have carried out reasonable enquiries into Mr M's circumstances to check that he'd be able to make the payments to this loan. I'd also only expect it to have proceeded in the event that those reasonable enquiries demonstrated that Mr M could make the payments. This is particularly as it was lending funds that it had received from its members and in these circumstances there had to be a reasonable expectation that it would be able to recover the funds being lent.

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

hand, Mr M has said he had historic issues with debt which would have been apparent had sufficient checks been completed.

I've carefully thought about what Mr M and CCB have said.

The first thing for me to say is that CCB not only asked Mr M for details about his income, it cross checked Mr M's declaration against information from credit reference agencies on the amount of funds his main bank account received each month. This cross checking suggested that Mr M's declaration was plausible.

CCB also carried out a credit check to assess Mr M's indebtedness. These credit searches did show that Mr M had some existing debts. But it's fair to say that these weren't excessive. And I can't see that any recent significant adverse information such as defaulted accounts or county court judgments ("CCJ") were recorded against Mr M either.

Mr M says that the whole process was carried out online, that he received the funds in two hours and as no one called him or spoke to him he believes that an affordability check wasn't carried out. At this point it may help for me to explain that each lender will have its own criteria for determining what it wishes to know about and see from a customer before lending.

As I've explained, the more important thing is for a lender to get a reasonable understanding of a prospective borrower's ability to repay. Speaking to a customer or obtaining evidence such as bank statements isn't the only way for a lender to do this. Nonetheless, given the circumstances here, it's difficult for me to see how CCB could have confidently believed that it would be repaid, without a reasonable understanding of Mr M's regular living expenses as well as his income and existing credit commitments.

I've therefore considered the information Mr M has provided with a view to determining what obtaining such information is more likely than not to have shown. The information Mr M has provided does appear to show that when his committed regular living expenses and existing credit commitments were deducted from his monthly income, he did have the funds, at the time at least, to sustainably make the repayments for this CCB loan.

I know that Mr M has referred to already having a loan at the time of this application. However, it's worth noting that the information from Mr M's loan application shows that he said he was going to use the funds from this loan to consolidate his existing debts. I also know that Mr M did go on to settle the loan he has referred to with these funds. In any event, CCB could only make a reasonable decision based on the information it had available at the time.

While CCB won't have known whether Mr M would settle his existing loan, it acted in good faith by reasonably relying on Mr M's assurance that he would use this loan for consolidation purposes like he said he would. Equally, as this was a first loan CCB was providing to Mr M, there wasn't a history of Mr M obtaining funds and then failing to consolidate debts elsewhere in the way he committed to either.

So CCB was reasonably entitled to believe that Mr M would be left in a better position after being provided with this loan. Furthermore, as Mr M did consolidate his existing loan, I don't think that it would be fair and reasonable for me to include this as an ongoing commitment that he had to make after he was provided this loan.

I accept that Mr M's actual circumstances may not have been fully reflected either in the information he provided, or the information CCB obtained. I'm sorry to hear that Mr M has experienced difficulty making his 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 CCB could possibly be expected to have known that the payments to this agreement were unaffordable, bearing in mind that reasonable checks do not show that this was the case.

Finally, I note that Mr M has said that his final monthly payment has changed and that it is substantially larger than he anticipated it being when he signed his agreement. However, Mr B's loan agreement states that the final payment will be whatever balance that's left to repay at the time the final payment is due. The reason for this flexibility is because Mr M's first payment was due to be made, at a date of his choosing, some point between 20 days and 60 days of when the funds were provided.

Mr M's first repayment was made around 45 days after the loan funds were paid. So more than halfway through the 20 to 60 day period. This has resulted in more interest being accrued in the first few days when the amount owed is at its highest and a higher amount being left to repay at the end. As the final payment isn't specified on the credit agreement and total amount Mr M has to pay hasn't changed, I don't think that CCB has treated him unfairly in relation to this matter.

Overall and having considered everything, I don't think that CCB treated Mr M unfairly or unreasonably in its dealing with him. And I'm therefore not upholding Mr M's complaint. I appreciate this will be very disappointing for Mr M - particularly as he feels strongly about matters. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 3 June 2025.

Jeshen Narayanan
Ombudsman