

The complaint

Mr M is complaining that Brent Shrine Credit Union Limited trading as My Community Bank (MCB) lent to him irresponsibly by providing him with a personal loan. Mr M's complaint has been handled by a representative but for ease I've written as if we've dealt with him directly throughout.

What happened

In September 2022, Mr M applied for a loan with MCB. They lent him £15,000 over a four-year term. The loan required Mr M to make 47 monthly repayments of around £418, followed by a final payment to clear the balance.

Mr M complained to MCB in October 2024, saying they shouldn't have given him the loan as it was unaffordable. He said MCB should have done more checks before lending to him.

MCB responded, saying they'd carried out appropriate checks before lending to Mr M. They said they'd reviewed Mr M's credit file and used credit reference agency (CRA) data to verify his income and Office for National Statistics (ONS) data to estimate his expenditure. They said they were satisfied that Mr M met their lending criteria from both a creditworthiness and affordability perspective and so didn't uphold his complaint.

Mr M wasn't happy with MCB's response, so he brought his complaint to our service and one of our investigators looked into it. Our investigator didn't uphold the complaint – she thought MCB had carried out enough checks before lending to Mr M and had made a fair lending decision based on the results of those checks.

Mr M remained unhappy and asked for an ombudsman to look into his complaint. In doing so, he said at the time of the lending decision he was using £1,500 of his £2,000 overdraft. And he said his credit report revealed a pattern of high-cost, short-term borrowing from 2018 to 2020, reflecting dependency on credit. He didn't think it was reasonable to use ONS data when assessing affordability of a loan with such a high value and long term. And he said MCB's estimate of Mr M's disposable income didn't seem realistic given his overdraft balance. The complaint's now been allocated to me for a decision.

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 Mr M's complaint for broadly the same reasons as our investigator. I'll explain more below.

What's required of lenders?

Although Mr M's loan agreement with MCB is an exempt agreement, and therefore not subject to all the usual consumer credit regulations, MCB 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 before providing a loan a credit union needs to consider things such as the cost of the lending as well as the amount, how long the customer will need to make repayments for and the potential consequences of not meeting the repayments. With the above in mind, they'll then need to consider the customer's circumstances. I'd usually expect to see some or all of the following: credit checks, income verification, consideration of income and expenditure.

Did MCB carry out reasonable checks?

MCB's loan required Mr M to pay back over £20,000 (including interest), over a four-year period. So my starting point is that I'd expect their checks to have been thorough.

MCB ran automated checks which looked at Mr M's data from his application and CRAs. They verified his annual income as being at least £33,000, and they found no concerning information on his credit file. MCB also estimated Mr M's disposable income – they said his credit commitments were calculated automatically from Mr M's credit file, and his other expenditure was estimated using data from the Office for National Statistics.

Whether or not MCB carried out enough checks depends partly on what they found. MCB told us Mr M passed all their automated checks. When I looked at the credit file they'd reviewed, I could see Mr M hadn't missed any payments on his existing loan and had kept his overdraft within the terms. Apart from these two accounts, he had a communications account and another current account, both of which were up to date and neither of which had an outstanding balance. There's no evidence MCB found any defaults or other adverse information on Mr M's credit file.

The credit file only shows Mr M's active accounts at the time of the lending decision. So I've reviewed the credit report Mr M sent us to see what else MCB would have been aware of. I didn't see any adverse information in relation to accounts Mr M had already settled at the time of his application to Mr M. And while he had previously taken out around five short-term loans, all of these were settled more than two years prior to Mr M's application to MCB. So I can't say MCB should have considered them indicative of Mr M's financial circumstances at the time.

I noticed Mr M's credit report shows that Mr M took out a credit card and another loan shortly before he applied for the loan with MCB. I can't say MCB should have been aware of these – there can be a delay in reporting to CRAs and it's likely that's why these accounts don't appear on MCB's summary of their credit check.

On balance, I think MCB did carry out enough checks. I appreciate they were automated, and the loan was for a large sum and a long term. But lenders are allowed to carry out automated checks. And whilst MCB didn't have to follow consumer credit regulation when assessing affordability for Mr M's loan, that regulation does allow lenders to use statistical data when estimating a consumer's expenditure unless the lender ought to be aware that the statistical data aren't likely to be applicable for that consumer.

Mr M's said his overdraft ought to have indicated that he might be in financial difficulties, or that his spending might not be in line with statistical data. But I don't agree. People choose to manage their money in different ways. This was an approved overdraft, and Mr M was well within the overdraft limit. And he had very little in the way of other credit. I'm not persuaded Mr M's use of his overdraft meant his costs of living were likely to be significantly different from that set out in the statistical data.

So, in summary, MCB checked Mr M's income, reviewed his credit file, and estimated his disposable income, finding no adverse information. I'm satisfied there wasn't anything they knew or ought to have known about Mr M's financial circumstances that ought to have prompted them to do more checks.

Did MCB make a fair lending decision?

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

MCB explained that when making lending decisions, they calculate a maximum monthly instalment. They do this by deducting a customer's credit commitments, housing costs, and expenditure from their net monthly income, and then deducting a buffer of between £50 and £200.

MCB haven't been clear on what net monthly income figure they used for Mr M. So I've used an online tax calculator which suggests that having verified Mr M's annual income as £33,000, MCB would have been able to use a figure of around £2,200 as his net monthly income.

MCB have told us that they estimated Mr M's rent payments as £400 per month, his monthly credit commitments at around £20, and his other living costs as around £620 per month. This would leave Mr M with around £1,160 of disposable income from which to make the £418 per month payments due under this loan, and around £740 per month after making the payments. This is significantly higher than MCB's maximum buffer of £200. So the repayments appear to have been easily affordable for Mr M.

It appears MCB didn't factor any payments towards reducing Mr M's overdraft into their estimate of credit commitments. But with this level of disposable income, that doesn't change my opinion that MCB made a fair lending decision – I'm satisfied that if they had, they could still have found Mr M would likely have a relatively high level of disposable income after making the monthly repayments due on their loan.

Did MCB treat Mr 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 (Section 140A). However, for the reasons I've already given, I don't think MCB lent irresponsibly to Mr M or otherwise treated him 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 Mr M's complaint about Brent Shrine Credit Union trading as My Community Bank.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 12 August 2025.

Clare King
Ombudsman