DRN-5651927

The complaint

Mr C is complaining that North Edinburgh and Castle Credit Union Limited trading as Castle Community Bank (CCB) acted irresponsibly in lending to him.

What happened

In June 2023, Mr C applied for a loan with CCB. They lent him £4,000 over a three-year term, with monthly repayments of around £174 throughout.

Mr C complained to CCB in October 2024. He said they shouldn't have given him the loan – the high repayment and high interest rate were never affordable, and he was already in financial difficulty before applying for the loan. Mr C said if CCB had done enough checks they'd have realised he was in a cycle of persistent debt, having to borrow in order to pay off existing loans and other debts. He added that he has a young child which added to his cost of living, and he said he has a gambling issue – he said CCB would have seen this if they'd looked at his bank statements in any detail.

CCB didn't uphold Mr C's complaint. They said they'd carried out appropriate checks before lending to Mr C and, as Mr C had met their lending criteria, they were confident they'd lent responsibly to him. They also offered to discuss the loan repayments with Mr C and look at options to make them more affordable for him.

Mr C remained unhappy and brought his complaint to our service. When he did so, he said he had a huge gambling problem at the time of his application. He said he'd borrowed to fund his gambling and to put food on the table. And he said trying to keep up with repayments was having a significant impact on his mental health. One of our investigators looked into Mr C's complaint, but didn't uphold it. In summary, she thought CCB had done enough checks and had made a fair lending decision based on the results of those checks.

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 C's complaint for broadly the same reasons as our investigator. I realise this will be disappointing for him, but I'll explain why below.

What's required of lenders?

Mr C's loan agreement with CCB is an exempt agreement, and therefore isn't subject to all the usual consumer credit regulations. But it is subject to the provisions set out in the Financial Conduct Authority's (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 summary, it's reasonable to assume that before providing this loan CCB needed to consider Mr C's financial circumstances and the affordability of the loan for him.

Did CCB carry out enough checks?

CCB carried out their usual automated checks before approving Mr C's loan. This included a review of his credit file, automatically verifying his income using a credit reference agency (CRA), estimating his cost of living using Office for National Statistics (ONS) data, and estimating his disposable income taking into account these other figures. They also saw that Mr C had settled his previous loan with them with no missed payments.

The credit check CCB carried out shows at the time of his application, Mr C had no recent missed payments, defaults, or other adverse information on his credit file. He had a mix of loans and credit cards and his utilisation across his credit cards and store cards was around 53%. Mr C had relatively low total debt of around £8,800, and although he'd opened two accounts in the preceding three months, the most recent was a deferred payment account with a balance of just £100 and the other was a loan of around £1,500 – so neither would have been particularly concerning. CCB noted that Mr C had previously defaulted on two accounts, but that these had defaulted more than five years before his application to them. So there wasn't anything in the credit file to suggest Mr C was in financial difficulties or a cycle of persistent debt at the time of his application.

I appreciate Mr C says his debts were significantly higher than this and he was maxed out on his credit cards. But I can't say CCB should have been aware of that – they were entitled to rely on the results of their credit check.

In respect of income, Mr C told CCB his annual income was around £30,750. CCB's automated checks arrived at a monthly figure of around £2,000 – which is in line with what I'd expect the net take-home pay to be on Mr C's stated annual salary. These automated checks generally look at the amounts going through a customer's current account. So, whilst they don't provide quite the same level of certainty as bank statements or payslips, they do give a reasonable level of confidence that Mr C's income was what he'd told them it was.

CCB estimated Mr C would need to pay around £427 per month towards his existing loans and credit cards. Adding in the repayments under this loan takes this figure to around £600 per month. That leaves around £1,400 per month for Mr C to cover his other non-discretionary costs. CCB used statistical data to estimate what these would be, and arrived at a figure of around £950, suggesting Mr C would have around £450 per month in disposable income after making the repayments needed to CCB.

Mr C said CCB should have looked at his bank statements instead of relying on statistical data. But I disagree. I have to consider what's fair and reasonable in the circumstances. And I don't think it's reasonable to say CCB should have carried out a detailed review of Mr C's bank statements given the amount and term of the loan. Statistical data provides a good indication of an individual's likely non-discretionary spending. The information CCB obtained about Mr C's credit file wasn't concerning and didn't suggest that the data wouldn't apply to him. And CCB calculated Mr C would have around £450 per month left over. So I'm satisfied it was reasonable for them to assume the loan would be affordable for Mr C even if their estimates were lower than Mr C's actual non-discretionary spending.

Taking everything together, I'm satisfied CCB carried out enough checks before lending to Mr C.

Did MCB make a fair lending decision?

Having decided that CCB carried out enough checks, I have to consider whether their decision to lend to Mr C was fair. As I've set out above, I haven't seen anything in the information CCB obtained that ought to have caused concerns about the affordability of the loan for Mr C. I'm satisfied CCB made a reasonable estimate of Mr C's existing credit commitments and of his likely disposable income and that they acted fairly in deciding this agreement was likely to be affordable for him.

Did CCB treat Mr C unfairly in any other way?

In raising his complaint, Mr C's said he's been struggling to make repayments under the agreement. CCB have offered to discuss alternative repayment plans with Mr C and I can't say they should have done any more.

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 CCB lent irresponsibly to Mr C 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 C's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 9 October 2025.

Clare King
Ombudsman