DRN-5665233

The complaint

Mr H 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 September 2024, Mr H applied for a loan with CCB. They lent him £5,000 over a three-year term, with monthly repayments of around £200 throughout.

Mr H complained to CCB in December 2024. He said CCB had previously lent to him in February 2024, and he'd complained to CCB in April 2024 about that loan being irresponsible. Mr H said he'd told CCB when making that complaint that he was a gambling addict. So, he said, CCB shouldn't have lent to him in September 2024 – they should have been aware of his financial vulnerability. He said he was now struggling to repay both loans.

CCB didn't uphold Mr H's complaint. They said they'd previously responded to his complaint about the February 2024 loan. And, in relation to the September 2024 loan, they said they'd carried out appropriate checks before lending to Mr H and, as Mr H had met their lending criteria, they were confident they'd lent responsibly to him.

Mr H remained unhappy and brought his complaints about both loans to our service. We told Mr H he'd brought the complaint about his first loan to us too late. One of our investigators looked into the second loan, but she didn't uphold it. In summary, although she thought CCB should have done more checks, she didn't think they'd have found evidence that Mr H was gambling compulsively, so she thought CCB could still have fairly decided to lend to him.

Mr H disagreed with our investigator. He said financial businesses have a duty of care to vulnerable customers and should have considered his financial circumstances over a longer period of time – six months rather than three months. And he said CCB should have asked specific questions about his gambling addiction. He also said he'd changed jobs shortly before taking out the loan and was still in his probationary period. He thought CCB should have asked more questions about his employment. Mr H asked for his complaint to be looked at again – and it'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 Mr H's complaint for broadly the same reasons as our investigator. I realise this will be disappointing for him, but I'll explain more below.

What's required of lenders?

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

CREDS 7.2.1AR states that – "*A credit union must establish, maintain and implement an up-to-date lending policy statement approved by the governing body that is prudent and appropriate to the scale and nature of its business*." And CREDS 7.2.6G states that "*The lending policy should consider the conditions for and amounts of lending to members, individual mandates, and the handling of applications for lending.*" Finally, CREDS 7.1.2G says that Chapter 7 of CREDS "*seeks to protect the interest of credit unions' members in respect of loans to members*".

Taking all this together, it's clear the FCA says 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. And CCB acknowledges this – they said they follow the consumer credit regulations (CONC) as guidance. These regulations say a firm must consider a consumer's ability to make repayments under the agreement in a sustainable way, carrying out checks which are proportionate to the individual circumstances of each application.

Did CCB carry out proportionate checks?

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

CCB found Mr H had no missed payments, defaults, or other adverse information on his credit file. They calculated his utilisation on his credit cards was less than 50%. And they estimated his disposable income (after paying for all essential spending and credit commitments including this new loan) was around £1,250 per month. On the face of it, then, the repayments for this loan appeared affordable and Mr H didn't appear to be in any financial difficulties.

However, Mr H had told CCB in April 2024 that he had a gambling addiction – I've seen he wrote in an email to them about his previous loan: "*at no point during my application were my bank statements … viewed… if they had been then you would have seen I was an addict of gambling and in no position to repay these loans."*

Because of this, I think CCB should have carried out some additional checks to determine whether the loan repayments would be sustainably affordable for Mr H.

What would CCB have found if they'd carried out proportionate checks?

I can't say exactly what checks CCB should have carried out. But they should have taken some steps to determine whether gambling was still a problem for Mr H.

CCB would have seen that Mr H had made all his repayments on their existing loan on time, that he was up to date with his other creditors, that he'd settled some loans early, was well within his credit limits on his credit cards, and wasn't overly indebted. His credit file wasn't indicative of someone who was struggling with a gambling addiction. And he'd told them the loan was for home improvements.

But CCB should have done more given Mr H had disclosed his addiction to them. They could also have asked Mr H about his gambling, and they could have reviewed his bank statements. Mr H's bank statements don't show any significant gambling after 8 April 2024. He has told us he was receiving support from charities to help him stop gambling.

I can't say CCB should have looked at six months of bank statements for Mr H – the regulations aren't that specific. And I can't say what they should have asked him about his gambling. But I'm satisfied that if they'd done proportionate checks, CCB could still have decided to lend to Mr H. That's because by the time CCB approved the loan it appears Mr H hadn't gambled for over five months and was in a stable financial situation with a healthy disposable income.

Mr H says CCB should also have taken additional steps to understand his employment status because he'd recently changed jobs. I appreciate that the loss of his job fairly soon after this loan was granted has left him in financial difficulties. But I can't say that was reasonably foreseeable for CCB. My H moved from one job to another without an evident gap and with an increase in earnings. His net monthly pay was well over £5,000. In the circumstances, I'm satisfied it would have been reasonable for CCB to assume there wouldn't be a significant drop in Mr H's income within the three-year term of their loan.

Did CCB treat Mr H 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 CCB lent irresponsibly to Mr H 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 H's complaint. Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 12 August 2025.

Clare King
Ombudsman