

The complaint

Mr A is complaining that Serve and Protect Credit Union Limited (SPCU) lent to him irresponsibly by providing him with a personal loan.

What happened

In May 2013, Mr A applied for a loan with SPCU. They lent him £11,500 over a seven-year term. The loan required Mr A to make 84 monthly repayments of around £180.

Mr A complained to SPCU in January 2025, saying they shouldn't have given him the loan as it was unaffordable. He said his credit record at the time showed that he had a number of defaults and had recently missed payments, showing that he was in financial difficulty at the time of the loan. He said SPCU didn't ask him enough about his expenses, or about his health – he said he was suffering with post-traumatic stress disorder (PTSD) and was getting into a large amount of debt as a result.

SPCU responded to the complaint. They said Mr A had told them the loan was to repay his mother after she'd loaned him the money to buy a car. They said Mr A had told them about his PTSD, and that he'd be receiving compensation money later that year and would use this to repay the loan. SPCU also detailed the checks they'd carried out before lending to Mr A and concluded that they'd carried out a thorough assessment and found the loan would be affordable for Mr A and he wasn't in financial difficulties at the time of his application.

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

Mr A remained unhappy and asked for an ombudsman to look into his complaint. In summary, he made the following points:

- His mental health at the time of his application meant that he was vulnerable, and SPCU hadn't made any adjustments to their process to reflect this. He felt that this meant that the relationship was unfair.
- While SPCU had verified his income and expenditure, their assessment didn't go far enough to consider sustainability, particularly given the mental and emotional strain he was under.
- It was troubling that SPCU had speculatively relied on an expected compensation payment in assessing his ability to repay the loan – no compensation payment was ever awarded.
- Because of this and other borrowing, his debt levels spiralled out of control, and he fell behind on repayments and other bills, which resulted in several County Court Judgments (CCJs) being registered against him. This impacted his employment as

well as further impacting his mental health.

As our investigator couldn't resolve things, 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 A's complaint for broadly the same reasons as our investigator. I appreciate this will be very disappointing for Mr A, but I'll explain more below.

What's required of lenders?

Mr A's loan agreement with SPCU is an exempt agreement and therefore isn't subject to the usual consumer credit regulations set out in the Financial Conduct Authority's (FCA's) Consumer Credit Sourcebook (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 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.

So, in summary, it's reasonable to assume that before providing this loan SPCU needed to consider Mr A's financial circumstances and the affordability of the loan for him.

Did SPCU carry out reasonable checks?

SPCU reviewed Mr A's credit file, noting that he had around £800 in credit card debt, and around £320 outstanding on a loan, as well as £10 on a telecommunications account. They noted he hadn't exceeded his credit limit in the preceding twelve months and there was no evidence of sharp rises in balances. They also noted he had defaults on his credit file but considered these historical.

SPCU also obtained Mr A's income and expenditure from his application and reviewed his payslips and bank statements, discussing some queries with Mr A. They also discussed Mr A's sick leave with him, noting that he'd receive a compensation payment by the end of the year which he intended to use to clear the loan. SPCU's notes say that he wanted the extended, seven-year, term for the loan so that he had surplus funds in the meantime.

In summary, SPCU carried out a thorough assessment of Mr A's financial circumstances at the time of his application. I can't say they should have done more.

Did SPCU make a fair lending decision given what they found?

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

Looking at the credit file SPCU reviewed, I can see Mr A had balances totalling less than £1,200, and was using around 75% of the limit on his credit cards. He had defaulted on three accounts, but all of these defaults occurred, and were satisfied, more than four years before Mr A's application to SPCU. All of Mr A's active accounts were well managed, with no missed payments in the two years prior to his application, and no overlimit balances in the twelve months prior. In summary, Mr A's credit file was indicative of someone who'd previously had some financial difficulties but had resolved them and was now managing his credit well and wasn't overindebted.

Mr A's application says he had £1,300 per month take-home pay, and £585 per month in expenses. It also says he was living with his parents. I've reviewed the payslips and bank statements SPCU sent us. The two months' payslips show that Mr A's take-home pay was slightly higher than he'd said – the average of these two was around £1,400. The bank statements are only for one month but don't indicate that Mr A's regular committed expenditure was higher than he'd set out in his application. And I didn't see any signs of financial vulnerability in the statements. SPCU factored in Mr A's payments to creditors and estimated he had disposable income of around £700 per month from which to make their loan repayments of around £180. This would have left him with around £520 per month to cover emergencies, food, and discretionary spending. I'm therefore satisfied that the loan appeared to be affordable.

I'm also satisfied that SPCU fairly decided that the loan would continue to be affordable. It appears Mr A told them he expected to pay it off by the end of the year – but I haven't seen that that impacted SPCU's assessment. Instead, I think it was reasonable for SPCU to conclude that with £520 per month in disposable income after making the loan repayments, Mr A would likely be able to afford the repayments over an extended period, even if his living expenses were to increase above any pay rise he might benefit from in the future.

Did SPCU treat Mr A unfairly in any other way?

In response to our investigator's view, Mr A told us he was vulnerable at the time of his application to SPCU, and said that should have changed how SPCU assessed his application. I'm sorry to read of what Mr A's been through. However, the FCA only began their work on consumer vulnerability in 2019, and their guidance was first published in February 2021. I can't say SPCU should have taken into account guidance which didn't exist at the time.

In addition, whilst Mr A did tell SPCU in his application that he was on sick leave, he also said he anticipated returning to work within four weeks and remaining on full pay throughout. He also explained to SPCU the purpose of the loan was to repay his mother a debt he owed for a car he'd bought. So, there was a clear rationale for the loan and an expectation that Mr A would be returning to his usual work shortly and I therefore can't conclude that SPCU acted unfairly in lending to him.

Mr A also told us that this lending, along with other credit he obtained, led to his debts spiralling out of control and his mental health deteriorating further. This also impacted his employment. I appreciate he's been through a very difficult time. However, it doesn't automatically follow that SPCU shouldn't have lent to him in the first place. And, as I've explained above, I'm satisfied they acted fairly in assessing and approving Mr A's application for a loan.

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

can't conclude SPCU lent irresponsibly to Mr A 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 A's complaint about Serve and Protect Credit Union Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 16 September 2025.

Clare King
Ombudsman