DRN-5708767

The complaint

Miss M is complaining that Brent Shrine Credit Union Limited trading as My Community Bank (MCB) lent to her irresponsibly by providing her with two personal loans.

What happened

In July 2023, Miss M applied for a loan with MCB. They lent her £2,000 over a two-year term. The loan required Miss M to make 23 monthly repayments of around £114, followed by a final payment to clear the balance. MCB then approved a second loan for Miss M in November 2023. This loan was for £3,000, over a three-year term, and with repayments of around £120 per month. Miss M settled the first loan early, in January 2024, but was making repayments against both loans for a short time.

Miss M complained to MCB in October 2024, saying they shouldn't have given her the loans as they were unaffordable. She said they hadn't carried out enough checks, and the financial strain had taken a toll on her mental health.

MCB responded, saying they had carried out appropriate checks before lending to Miss M. They said on each occasion they'd reviewed Miss M's credit file and used credit reference agency (CRA) data to verify her income. They said they'd used data from the Office for National Statistics (ONS) to estimate Miss M's general expenditure and calculated her monthly payments to existing creditors from her credit file. They also said they'd used an automated assessment from the CRA which considered a customer's existing indebtedness and whether additional lending might cause harm. MCB said they were satisfied that Miss M's loans weren't issued irresponsibly, and they didn't uphold her complaint.

Miss M wasn't happy with MCB's response, so she brought her complaint to our service. In doing so, she said at the time of her applications she had various existing debts including a maxed-out overdraft. She said her outgoings were more than her income and she shouldn't have passed the checks. Miss M also said she was struggling with a gambling addiction at the time, and this was exacerbated by the lending.

One of our investigators looked into the complaint but didn't uphold it. In summary, his view was that MCB had done enough checks and made a fair lending decision. Miss M remained unhappy. She said she'd taken out multiple lines of credit before the loans in question, demonstrating her existing financial obligations. And she said the short period between the two loans demonstrates that she was reliant on borrowing. Miss M asked for an ombudsman's decision – and the complaint's been passed 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 Miss M's complaint for broadly the same reasons as our investigator. I appreciate this will be disappointing for Miss M, especially as she's struggling financially, but I'll explain more below.

What's required of lenders?

Miss M's loan agreement with MCB is an exempt agreement and therefore isn't subject to all the usual consumer credit regulations. MCB's actions in relation to the agreement are also not subject to the Financial Conduct Authority's (FCA's) Principles, because those only apply when a firm is carrying out a regulated activity. But the agreement 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 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 MCB needed to consider Miss M's financial circumstances and the affordability of the loan for her.

Did MCB carry out reasonable checks?

In both her applications, Miss M said her annual income was £33,000. MCB ran automated checks which looked at Miss M's data from her applications and from CRAs. In each case, they verified her income, and they reviewed her credit file. MCB also estimated Miss M's disposable income – they said her credit commitments were calculated automatically from her credit file, and her other expenditure was estimated using data from the Office for National Statistics (ONS).

Whether or not these checks were proportionate depends on factors such as the size and term of the loan, and on what MCB found.

Loan 1

The credit report MCB sent us only show Miss M's active accounts at the time of this lending decision. It shows Miss M was keeping up with her payments and was within the credit limit on all of her accounts, with an average utilisation on her credit cards of around 80%. It also shows she wasn't using her overdraft at all at the time, though she had a limit of £1,000.

The credit report shows Miss M had credit card debts totalling around £3,775, a hire purchase agreement with around £17,400 outstanding, a car insurance agreement for £800, and an unsecured communications loan with around £700 outstanding. Miss M also had deferred payment creditors totalling £136. Other than the insurance and the deferred payment credit, it shows she'd taken out no new credit agreements recently. On the face of it, the credit file suggests that although Miss M was quite indebted, with total debts of around £23,000, much of this was in relation to a vehicle, and she likely wasn't in financial difficulties at the time she applied to MCB for the loan. And, when comparing Miss M's total debts to her annual income, I can understand why MBC weren't concerned. Their threshold for the ratio of total debt to annual income is 90% and Miss M's was well within that.

Miss M also sent us her own credit report. I can't say MCB ought to have obtained data from more than one CRA. They're entitled to assume that any individual CRA will give a reasonably accurate summary of a consumer's credit history. But because the data MCB sent only shows Miss M's active accounts, I reviewed Miss M's credit report to see whether MCB ought to have been aware of any adverse information on any of Miss M's closed accounts. I didn't see anything that I thought ought to have concerned MCB.

In relation to Miss M's income, MCB didn't simply accept Miss M's figure, they verified it using an automated check which is widely used by lenders in the United Kingdom. So I can't say they should have done more to verify Miss M's income.

MCB then used statistical data to estimate Miss M's non-discretionary expenditure. Again, this is widely used by lenders in the United Kingdom, and I haven't seen anything in the data MCB obtained that suggests that Miss M's essential spending would have been significantly higher than average.

Loan 2

By the time of the second loan, Miss M's total debts had increased to nearly £27,000 – but they were still within MCB's threshold of 90%. This increase was largely made up of the existing MCB loan, an insurance loan for nearly £3,000 and another loan for nearly £1,000. Miss M's utilisation of her credit card limits had reduced to around 75% on average and the credit report showed her overdraft balance was zero. The credit report again showed Miss M was making all her payments on time. So, again, I can't say the credit report suggested Miss M was in financial difficulties – much of her debt was in relation to a car and to insurance products, and all of it was being well maintained. Whilst she had some new debts, one of these was in relation to an insurance product, and the other wasn't for a large sum, so I wouldn't expect them to have prompted MCB to do anything further.

Miss M suggested the short timeframe between the two loan applications should have caused MCB concern. And she's said that her use of deferred payment agreements shows she was in financial difficulties. However, given the size of the two loans she applied for with MCB, I'm not persuaded the short timeframe should have been a particular cause for concern. And I don't consider the use of deferred payment agreements to be an indicator of financial difficulties either – these are often interest-free, and even when they're not, are frequently used as a way of managing finances.

On balance, I think MCB did carry out enough checks. Although they were automated, this doesn't make them insufficient. On each occasion, MCB checked Miss M's income, reviewed her credit file, and estimated her disposable income. I've seen no indicators that this wasn't reasonable in Miss M's circumstances.

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 Miss 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 Miss M. But, based on an annual income of £33,000, I'm satisfied MCB could have fairly decided her net monthly income would have been around £2,240.

MCB also haven't explained how they calculated Miss M's credit commitments. But, given the balances they saw on Miss M's credit file, I'm satisfied the figure they used for each application was reasonable.

In relation to Loan 1, MCB said they estimated Miss M's monthly rent at £338, her credit commitments at around £536, and her other living costs as around £616. This would leave Miss M with £750 of disposable income from which to make the £114 per month payments due under this loan agreement. This leaves a buffer of around £636 – well above MCB's policy that the buffer should be between £50 and £200. I'm satisfied MCB acted fairly in deciding this was enough and that this loan was affordable for Miss M.

When it came to Loan 2, MCB estimated Miss M's monthly rent at £500, her credit commitments at around £950, and her other essential expenditure at around £560. This left Miss M with disposable income of around £230 from which to make the payments due of £120. This leaves a buffer of around £110 per month – which was within MCB's thresholds. So, although by this point Miss M was likely to have significantly less disposable income, I'm still satisfied MCB acted fairly in approving her loan.

As part of her complaint, Miss M told us she was struggling with a gambling addiction. Whilst I'm sorry to hear this and can appreciate how difficult it would have been, I can't say MCB should have been aware of this. Given the results of the checks they carried out, it wouldn't be fair to say they ought to have done more before lending to Miss M.

Have MCB treated Miss 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 Miss M or otherwise treated her 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 Miss M's complaint. Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 22 October 2025.

Clare King
Ombudsman