

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.

What happened

In March 2021, Mr M applied for a loan with MCB. They approved his application and lent him £13,000 over a five-year term. The loan required Mr M to make 59 monthly repayments of around £300, followed by a final payment to clear the balance.

Mr M complained to MCB in November 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 and Open Banking to verify his income, CRA data to assess his credit commitments and mortgage payments, and Office for National Statistics (ONS) data to estimate his other essential 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's view was that the complaint should be upheld – he thought MCB had carried out enough checks but not made a fair lending decision because the expenditure MCB had estimated exceeded Mr M's income as shown by the Open Banking data.

MCB then told us that when they found this, they'd carried out a further assessment, looking at Mr M's actual expenditure rather than using ONS data. When they did this, they said, they found Mr M would have around £160 disposable income after making the loan repayments. So, they were satisfied they'd made a fair lending decision. Our investigator and MCB exchanged some further correspondence about what Mr M's actual expenditure was at the time – but they weren't able to reach an agreement. So the complaint's come 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 upholding Mr M's complaint for broadly the same reasons as our investigator. I'll explain further below.

Mr M's loan agreement with MCB is an exempt agreement, and therefore isn't subject to all the usual consumer credit regulations set out in 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 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 addition, MCB's website says: "*we only lend what you can afford to pay back*" and their final response letter to Mr M says they're required to carry out an affordability assessment to ensure the loan is affordable.

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

Did MCB carry out reasonable checks?

MCB's loan required Mr M to pay back over £18,000 (including interest), over a five-year period. So I'd expect their checks to have been thorough.

Before lending to Mr M, MCB:

- Obtained Mr M's income from his application and used Open Banking data to verify this;
- Carried out a credit check, and used information from the credit report to assess Mr M's monthly credit commitments;
- Used ONS data and then the Open Banking data to estimate Mr M's non-discretionary spending;
- Used all of these figures to carry out an affordability assessment and determine that the monthly repayments would be affordable for Mr M.

I'm satisfied that these checks were thorough enough to give MCB a good understanding of Mr M's financial circumstances at the time of his application.

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.

When I looked at the credit file they'd reviewed, I could see Mr M had a mortgage, four credit cards, four unsecured loan, and several credit sale and deferred payment accounts. He also had two communications accounts and two current accounts, but these had no credit facilities. His unsecured debts totalled around £16,700 and he was using on average around 65% of the credit limit on his credit cards. The credit file showed Mr M was up to date on all accounts and hadn't missed any payments in the preceding twelve months. And it showed most of Mr M's accounts were longstanding, with the most recently opened account having been opened six months prior to his application to MCB.

On balance, I don't think Mr M's credit report ought to have caused MCB any concern. Although Mr M had a reasonably high level of unsecured debt, I haven't seen evidence that he was in financial difficulties or reliant on credit at the time.

When I looked at the Open Banking data MCB provided to us, it was clear that Mr M's salary was around £2,050 per month. MCB's initial estimate of Mr M's credit commitments from his

credit file was around £760 per month (excluding his mortgage). The Open Banking data suggests he was paying a little more than this, at around £860 per month. The Open Banking data also shows Mr M had other regular and essential spending totalling around £380 per month – this being in respect of automotive and motorbike expenses, insurance, groceries and mobile phone contracts.

MCB's position is that Mr M had no other regular commitments or spending, so they said this showed the lending was affordable for him – those figures would have left him with around £810 per month from which to make the repayments under this agreement.

However, I'm not satisfied this is a fair analysis. It doesn't include any payments towards Mr M's mortgage, council tax, or energy bills, for example, and the figure for groceries appears on the low side, at around £111 per month.

The Open Banking data shows that Mr M made transfers to a joint account totalling around £5,000 across the three-month period. Some of these weren't regular, but he did make regular payments of £1,150 into this account in January and February 2021, and this is also the amount Mr M's told us he paid into the joint account to cover household bills. Deducting this £1,150 contribution to household bills from the £810 disposable income figure set out above would have left Mr M with negative disposable income – in the same way that deducting the ONS figures for essential spending suggested Mr M would have negative disposable income.

The Open Banking data does show Mr M had a significant amount of discretionary spending. But it also shows that Mr M was regularly moving money in and out of his savings accounts – and the level of discretionary spending was covered by the net amount transferred in from his savings. That suggests that Mr M was living beyond his regular income and was having to rely on savings for his discretionary spending.

MCB say there was some flexibility in Mr M's contributions to the household and they weren't all essential. But they didn't give any detail as to how much they thought would be essential. As a minimum they needed to cover his agreed share of the mortgage, council tax, water and energy bills, none of which were itemised in the Open Banking data. The total MCB estimated for Mr M's monthly mortgage and other essential spending using ONS data was £1,355. And the monthly average of the regular transfers to Mr M's joint account together with his other essential spending was not dissimilar – at £1,530.

Taking everything together, I'm not satisfied MCB made a fair lending decision here. Mr M's income was lower than the spending they first estimated using ONS data. When they then reviewed Mr M's Open Banking data they appear to have omitted Mr M's contributions to his household expenses via a joint account and on that basis decided that the £300 per month repayments would be affordable. Everything I've seen suggests that Mr M's essential spending was higher than his regular income and he was covering this deficit, and his discretionary spending, using savings and other ad hoc income. I don't consider this to be sustainable over a longer period, such as the five-year term of this loan, particularly when the payments needed were £300 per month. So, I'm satisfied MCB shouldn't have lent to Mr M and I'm upholding his complaint.

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, I'm satisfied the redress I've directed below results in fair compensation for Mr M in the circumstances of his complaint. I'm

satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

As I've explained above, I'm upholding Mr M's complaint. Brent Shrine Credit Union Limited trading as My Community Bank need to do the following to settle the matter:

- Rework the account removing all interest, fees and charges that have been applied; and
 - If the rework results in a credit balance, refund this to Mr M along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement; or
 - If after the rework there is still an outstanding balance, arrange an affordable repayment plan with Mr M for the remaining amount.
- Once Mr M has repaid the amount originally lent (net of interest and charges) in full, remove any adverse information recorded on his credit file regarding the agreement.

* HM Revenue & Customs requires Brent Shrine Credit Union Limited trading as My Community Bank to deduct tax from any award of interest. If Brent Shrine Credit Union Limited trading as My Community Bank consider tax should be deducted from the interest element of my award they should provide Mr M a certificate showing how much they've taken off so that he can reclaim that amount, assuming he is eligible to do so.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 23 October 2025.

Clare King
Ombudsman