DRN-5778145

The complaint

Mr D 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 2023, CCB approved Mr D's application for a loan. They lent him £9,000 over a five-year term, with monthly repayments of around £242 throughout.

Mr D complained to CCB in January 2025. He said given the size of the loan and his poor credit history, they should have taken additional steps to verify his income and expenditure – and if they'd done so, they'd likely have declined his application.

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

Mr D remained unhappy and brought his complaint to our service. When he did so, he said if CCB had asked for his bank statements they'd have seen his outgoings were more than his incomings and he was living in his overdraft. And he said had to keep borrowing to pay off existing debts. One of our investigators looked into Mr D's complaint but didn't uphold it. In summary, although she thought CCB should have done more checks, she thought if they had the loan would have appeared affordable and they'd still have been able to lend to Mr D.

Mr D wasn't happy with our investigator's view. He disputed the amount of income she'd included in her affordability assessment. And he said he was constantly in his overdraft and was using this to make repayments to his creditors, which ought to have been a red flag. He asked for an ombudsman's decision, and the matter'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 D'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 D'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 D'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 D'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.

The credit check CCB carried out shows at the time of his application, Mr D 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 quite low at around 36%. Mr D had total debts of around £15,560. While I appreciate this is quite high, it was only around 55% of his annual income – well within CCB's threshold of 90%. Two of Mr D's accounts had been opened within the preceding six months – a small unsecured loan, and a credit card with a limit of £3,000. The credit check also shows Mr D's overdraft balance was around £600, out of an approved limit of £1,500.

The credit report CCB provided only shows Mr D's active accounts at the time of their lending decision. So I've also reviewed the credit report Mr D sent us to see what CCB should have been aware of in respect of his closed accounts. I didn't see anything that I'd have expected to have caused CCB particular concern – he had no defaulted accounts, and I didn't see any evidence of significant payday lending or other indicators of financial difficulty.

So, in summary, I'm satisfied there wasn't anything in the credit file to suggest Mr D was in financial difficulties or a cycle of persistent debt at the time of his application.

In respect of income, Mr D told CCB his annual income was around £28,500. CCB's automated checks arrived at a monthly figure of around £1,980 – which is in line with what I'd expect the net take-home pay to be given Mr D'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 D's income was what he'd told them it was.

CCB estimated Mr D would need to pay around £592 per month towards his existing creditors. Adding in the repayments under this loan takes this figure to around £834 per month. CCB used statistical data to estimate what Mr D's non-discretionary expenditure would be, and arrived at a figure of around £1,095, suggesting Mr D would have only around £50 per month in disposable income after making the repayments needed to CCB.

That figure strikes me as very low, and it was outside CCB's policy by a penny. I'm aware Mr D had said on his application that the purpose of the loan was to consolidate other debts. And, as CCB have said, the disposable income would have been within their policy if they'd taken into account that stated purpose. But to do that, they would have needed to understand more about which debts Mr D was intending to consolidate.

On balance, then, I'm not satisfied with CCB's checks – the results of their automated checks suggested Mr D wouldn't have enough disposable income after taking out the loan, so they should have done more to understand his actual financial circumstances before lending to him.

If CCB had carried out further checks, what would they have found?

I've reviewed Mr D's bank statements to better understand his financial circumstances at the time of CCB's lending decision. I'm not saying CCB should have reviewed these – they could have obtained the information from other sources or by talking to Mr D. But in the absence of other information these statements provide a good idea of what CCB might have found if they'd done additional checks.

Mr D's bank statements show his net monthly employment income was around £1,848. And his regular payments (excluding those to creditors) totalled around £500 per month. Looking at Mr D's credit file and his bank statements together suggest his payments to existing creditors needed to be around £700 per month. Deducting those expenses from his employment income would have left Mr D with around £648 in disposable income, before paying for food or fuel, or making the repayments due under this new agreement. That would have left around £400 per month after making the repayments due. Mr D told us his wife covered some of the other household expenditure, particularly food. So, I'm satisfied that this £400 would have been enough to cover Mr D's monthly essentials and emergencies as well as leaving him with some disposable income.

Mr D said it's clear from his bank statements that his outgoings exceeded his expenditure and therefore the loan repayments were unaffordable. I can see that was the case, and that he made significant use of his overdraft. But much of his spending appears to have been discretionary. This likely wouldn't have been taken into account if CCB had carried out further checks – I'd have expected them to focus on essential and regular committed expenditure. And if they'd done so, I'm satisfied they'd have been able to decide the loan repayments would be affordable for Mr D, without taking into account any income other than his salary, and without factoring in any potential consolidation of existing debts.

In summary, then, if CCB had carried out further checks, I'm satisfied they'd have been able to fairly decide to lend to Mr D – so I can't uphold his complaint.

Did CCB treat Mr D 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 D 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 D's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 11 November 2025.

Clare King
Ombudsman