

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. Mr M's complaint has been handled by a representative, but for ease I've written as if we've dealt with him directly throughout.

What happened

In July 2021, Mr M applied for a loan with MCB. They approved his application and lent him £10,000 over a five-year term. The loan required Mr M to make 59 monthly repayments of around £310, followed by a final payment to clear the balance.

Mr M complained to MCB in October 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 Office for National Statistics (ONS) data to estimate his 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 didn't uphold the complaint – she thought MCB had carried out enough checks before lending to Mr M and had made a fair lending decision based on the results of those checks.

Mr M remained unhappy and asked for an ombudsman to look into his complaint. In doing so, he said at the time of the lending decision his income was around £1,700 per month, not £53,000 per year as suggested. He strongly disagreed with the disposable income MCB had calculated. And he said he didn't think he'd shared his banking information with MCB. He also said he had high utilisation of his existing credit at the time of his application. Mr M referred to the Financial Conduct Authority's (FCA) consumer credit handbook, CONC, and said MCB should have got a more thorough understanding of his financial circumstances before lending to him.

The complaint came to me, and I issued a provisional decision. In that, I said:

“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 apply a fair and reasonable lending policy and treat their customers fairly.

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 said they:

- 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 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, and of the affordability of the loan for him. Whilst I appreciate MCB used statistical rather than personal data to estimate Mr M's expenditure, I haven't seen anything to suggest that wasn't reasonable in the circumstances – his credit file suggests he wasn't in financial difficulties or overly indebted 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 five credit cards, an unsecured loan, two mail order accounts, a current account with an overdraft limit of £1,000, and a communications account. His debts totalled around £13,000 and he was using on average around 86% of the credit limit on his credit cards and overdraft. The credit file showed Mr M was up to date on all accounts and had only missed one payment in the preceding twelve months – that was around ten months prior on a mail order account and had been made up the following month.

The credit file only shows Mr M's active accounts at the time of the lending decision. So I reviewed the credit report Mr M sent us to see what else MCB would have been aware of.

I didn't see any adverse information in relation to accounts Mr M had already settled at the time of his application to Mr M. And while he had previously taken out short-term loans, all of these were settled more than six months prior to Mr M's application to MCB. So I can't say MCB should have considered them indicative of Mr M's financial circumstances at the time. On balance I don't think Mr M's credit report ought to have caused MCB any concern.

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 Mr M. When I looked at the Open Banking data MCB provided to us, it was clear that Mr M's salary was around £1,750 per month. Mr M did have some other ad hoc credits during the three months prior to the lending, but these weren't regular. And they included a returned direct debt as well as proceeds from a loan. I therefore don't think it would have been reasonable for MCB to include these ad hoc credits in their assessment of Mr M's monthly income.

So, although Mr M told MCB his annual income was £53,000, I think MCB would have only been able to use a figure of around £1,750 as his net monthly income.

MCB have told us that they estimated Mr M's rent payments as £740 per month, his monthly credit commitments at around £540, and his other living costs as around £740 per month. Deducting these from the £1,750 income he had per month would leave Mr M with negative disposable income even before making the £310 per month payments due under this loan. So, I'm inclined to say MCB didn't make a fair lending decision – I think they should have found the loan repayments would have been unaffordable for Mr M and shouldn't have lent to him.

For completeness, I've considered the other information contained in the Open Banking data. This shows Mr M had a regular expense of £1,310 each month. Mr M's told us this was an amount he paid to his wife to cover rent, bills, and groceries. His other non-discretionary spending was limited. So, it appears his actual non-discretionary expenditure was likely a little lower than MCB estimated (at around £1,400 rather than £1,480) but not enough to have made the loan repayments affordable. I think if MCB had gone as far as to understand Mr M's actual expenditure they still wouldn't have been able to decide the loan was affordable for him.

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.

Putting things right

As I don't think MCB should have approved the loan, I don't think it's fair that Mr M pay any interest or charges for the borrowing. He did have use of the funds he was lent, so it's fair he repays them. MCB should therefore calculate what Mr B has paid towards the loan

and anything he's paid above the amount lent should be refunded. If he hasn't repaid the amount lent, CCB should arrange a sustainable payment plan for the shortfall to be repaid."

Mr M didn't reply to my provisional decision, but MCB did. They provided some further information about the checks they'd done and asked that I reconsider.

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, and despite the additional information provided by MCB, I'm upholding Mr M's complaint. I'll explain why below.

In response to my view, MCB said they hadn't previously provided the full details of their affordability assessment for Mr M. They told us when they'd tried to verify Mr M's income, they'd found it was much lower than he'd stated, so they also used the open banking data to find out Mr M's actual expenditure.

When they did this, MCB found Mr M's total income over three months was around £5,200, his total credit commitments for three months were around £2,400, and his living expenses in the same three months were around £245 – so the loan repayments were clearly affordable. They explained that the expenditure figure included only transactions categorised in a certain way by their open banking provider – these needed to be categorised as commuting, education, insurance, healthcare, household essentials, utilities, and welfare.

MCB said they felt by doing this they'd gone into reasonable depth in looking at Mr M's transactional data before determining that the loan repayments would be affordable for him.

However, I disagree. Mr M's open banking data contains very few transactions. He made a regular payment of £1,310 in each month – these are by far the largest transactions shown. And the total of the living expenses MCB identified was only around £80 per month – an amount I'd consider clearly unrealistic. Once MCB decided to consider Mr M's actual expenditure, as they've told us they did, they needed to do more to understand it. It wasn't enough to only use certain categories and not consider what the rest of the data showed. And the £1,310 per month payment stood out clearly and should have been identified as living expenses. I'm not persuaded MCB acted fairly or reasonably, and I remain of the opinion that they shouldn't have approved Mr M's loan, and they should refund all interest and charges.

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 MCB to deduct tax from any award of interest. If MCB 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 25 September 2025.

Clare King
Ombudsman