

The complaint

Miss C is complaining that North Edinburgh and Castle Credit Union Limited trading as Castle Community Bank (CCB) lent to her irresponsibly.

What happened

In March 2024, Miss C applied for a loan with CCB for the purpose of buying a car. They lent her £4,900 over a four-year term. The loan required Miss C to make an initial payment of around £227, 46 monthly repayments of around £177, followed by a final payment to clear the balance.

Miss C complained to CCB in March 2025, saying they shouldn't have given her the loan. She said it was evident from her financial situation that she wouldn't be able to afford the repayments on the loan. As a result, she said, she'd had to take out additional credit and borrow from family and friends to cover the repayments. She said at the time she was already on a debt management plan (DMP), which should have been apparent from her credit file.

CCB responded, saying they'd carried out appropriate checks before lending to Miss C. They said they'd reviewed Miss C's credit file and used credit reference agency (CRA) data to verify her income. CCB said they were satisfied that Miss C's loan wasn't issued irresponsibly, and they didn't uphold her complaint.

Miss C wasn't happy with CCB's response, so she brought her complaint to our service. In doing so, she set out her monthly expenses at the time of the lending decision and said it was obvious she couldn't afford the monthly repayments needed.

One of our investigators looked into the complaint but didn't uphold it. In summary, his view was that CCB had done enough checks and made a fair lending decision. Miss C remained unhappy. She said our investigator hadn't considered her DMP and said this meant she'd already been acknowledged by a debt charity as being unable to meet her financial commitments without assistance. Miss C 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 C's complaint for broadly the same reasons as our investigator. I appreciate this will be disappointing for Miss C, especially as she says she's struggling financially, but I'll explain more below.

What's required of lenders?

Miss C's loan agreement with CCB is an exempt agreement and therefore isn't subject to all the usual consumer credit regulations. CCB'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 CCB needed to consider Miss C's financial circumstances and the affordability of the loan for her.

Did CCB carry out reasonable checks?

In her application, Miss C said her annual income was £28,000, and her rent was £750 per month. CCB ran automated checks which looked at Miss C's data from her application and from CRAs. CCB also estimated Miss C's disposable income – they said her credit commitments were calculated automatically from her credit file, and her other expenditure was estimated using statistical data.

The credit report CCB obtained shows Miss C had low levels of existing debt, hadn't missed any payments for these or for her water bills, and had taken out no new credit agreements in the six months prior to this lending. On the face of it, then, the credit file CCB obtained suggests that Miss C had few debts and likely wasn't in financial difficulties at the time she applied to CCB for the loan.

In relation to Miss C's income, CCB didn't simply accept Miss C'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 C's income.

CCB then used statistical data to estimate Miss C's non-discretionary expenditure. Again, this is widely used by lenders in the United Kingdom, and I haven't seen anything in the data CCB obtained that suggests that Miss C's essential spending would have been significantly higher than average. Instead, Miss C's own explanation of her spending at the time of the lending was very close to the figures CCB arrived at.

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

Did CCB make a fair lending decision?

Having decided that CCB carried out enough checks, I have to consider whether their decision to lend to Miss C was fair.

CCB were able to verify Miss C's monthly income at around £1,920. I accept that's significantly higher than the figure Miss C's subsequently told us she received. But I can't

say CCB should have realised her income was lower than she'd told them in her application – as I've explained above, they used a standard method to verify this.

CCB said they deducted Miss C's monthly rent at £750, her credit commitments at around £28, and her other living costs at around £580. This would leave Miss C with around £560 of disposable income from which to make the £177 per month payments due under this loan agreement. This leaves around £380 per month in disposable income – an amount I'd consider enough to fairly decide the loan was likely affordable for Miss C.

As noted above, CCB's credit report didn't suggest Miss C was in financial difficulties, or otherwise suggest the figures CCB had calculated wouldn't be realistic for Miss C. But, because the data CCB sent only shows Miss C's active accounts, I reviewed Miss C's credit report to see whether CCB ought to have been aware of any adverse information on any of Miss C's closed accounts. From this, I saw that Miss C had defaulted on two accounts – a loan in September 2019, and a current account in April 2020. This report also shows that Miss C was in a DMP in relation to one of the defaulted accounts.

CCB were aware of the defaulted accounts – they noted that the most recent of these was 47 months prior to Miss C's application, and that the outstanding balance on them totalled around £1,200. I wouldn't have expected the defaults to have had a bearing on Miss C's application given the time that had passed – they weren't indicative of financial difficulties at the time of her application.

I can't see that CCB were aware of the DMP. But I'm not persuaded they should have been, or that it should have made a difference. That's because on the credit report Miss C sent, the DMP was reported by only one of the three CRAs. And it was only reported in relation to one of the accounts that had defaulted. The DMP marker shows that that Miss C had contacted a debt charity in relation to paying that defaulted balance. But the fact that it isn't shown against any of the Miss C's other accounts suggests that she wasn't having difficulties paying those. On balance, then, even if CCB had been aware of the DMP marker, I'm not persuaded it should have made any difference to CCB's assessment.

I appreciate Miss C's strength of feeling, but I'm satisfied CCB obtained enough information and made a fair lending decision based on what they found, so I can't uphold her complaint.

Have CCB treated Miss C 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 Miss C 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 C's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 25 November 2025.

Clare King
Ombudsman