

## **The complaint**

Mr W 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 November 2023, Mr W applied for a loan with CCB. They lent him £5,000 over a five-year term, with monthly repayments of around £139 throughout. CCB approved a further loan to Mr W in December 2024. They lent him an additional £4,500, over a four-year term, with additional monthly repayments of £177.

Mr W made his payments for the first loan agreement on time until January 2025. He didn't make any contractual repayments for the second loan agreement and subsequently entered into a debt management plan for both agreements.

Mr W complained to CCB in June 2025. He said they hadn't properly checked he could afford to take the loans out. In particular, he said he shouldn't have been allowed the second loan when the first hadn't been fully repaid.

CCB didn't uphold Mr W's complaint. They said they'd carried out appropriate checks before lending to Mr W and, as Mr W had met their lending criteria, they were confident they'd lent responsibly to him.

Mr W remained unhappy and brought his complaint to our service. One of our investigators looked into Mr W's complaint and didn't think it should be upheld. In summary, she thought CCB had done enough checks and had made fair lending decisions based on the results of those checks.

Mr W disagreed. He said the second loan was his main point of concern and said the high interest rate of that loan showed that CCB could see he was a high-risk borrower. He was concerned that the affordability assessment relied too heavily on the fact that he was making repayments for his existing loan on time and said that didn't mean he could necessarily afford additional borrowing. Mr W 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 W's complaint for broadly the same reasons as our investigator. I appreciate he's in a difficult position financially and I realise this will be disappointing, but I'll explain below why I can't say CCB ought to have realised the loans would be unaffordable.

### *What's required of lenders?*

Mr W's loan agreements with CCB are exempt agreements, and therefore aren't subject to all the usual consumer credit regulations set out in CONC. But they are 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 its 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.

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

### *Loan one – November 2023*

Before lending to Mr W, CCB:

- Obtained Mr W's income from his application and used an automated tool provided by a credit reference agency to verify this;
- Carried out a credit check, and used information from the credit report to estimate Mr W's monthly credit commitments;
- Used Office for National Statistics (ONS) data to estimate Mr W's non-discretionary spending; and
- Used these figures to carry out an affordability assessment and determine that the monthly repayments would be affordable for Mr W.

CCB found Mr W had no recent missed payments, defaults, or other adverse information on his credit file. And they found he'd opened only one new account in the preceding three months. They calculated his existing unsecured debt was around 45% of his annual income, well within their threshold. CCB's credit check showed Mr W might have had three active motor finance agreements, although one of these appeared to be dormant. And, if this account was active, his monthly credit commitments were relatively high, at around £1,500 per month. But his accounts were all well managed, with no missed payments or arrears. And his utilisation on his credit cards was only around 17%. So, he didn't appear to be in any financial difficulties at the time.

Although CCB's checks were automated, this doesn't make them insufficient. These types of automated checks are widely used across the lending sector in the United Kingdom. And there's nothing in Mr W's application data or credit file data that suggests it wasn't appropriate for CCB to use them. In summary, I'm satisfied they carried out enough checks before approving Mr W's first loan.

CCB estimated Mr W's rent at £550 per month, his other living expenses at around £1,020, and his existing credit commitments at around £1,500 per month. Adding on the repayments for this new loan would have meant his non-discretionary and committed expenditure would

be around £3,210 per month. This was significantly less than the monthly salary CCB verified (of £3,605). Having reviewed the components of the calculation and the estimated disposable income, I'm satisfied CCB acted fairly in deciding this loan would likely be affordable for Mr W.

#### *Loan two – December 2024*

CCB carried out the same checks before approving the second loan.

By this time, Mr W's total debt had increased quite significantly and was around 60% of his annual income. He was using an overdraft on one of his current accounts, and his overall utilisation of his revolving credit limits (i.e. overdrafts and credit cards) had increased significantly to around 72%. So it would have appeared to CCB that Mr W was more financially vulnerable than he had been previously. And, as Mr W noted, the increased interest rate likely reflected that.

However, the credit search still showed that Mr W was making all his payments on time. His total monthly credit commitments hadn't increased. And his salary had increased. There were no indicators from his credit file or any of the other information CCB gathered that Mr W was in financial difficulties, or that statistical data wouldn't apply to him. So I'm satisfied CCB acted fairly in relying on automated checks.

CCB estimated Mr W's rent at around £600 per month, his other non-discretionary expenditure at around £740 per month and his existing credit commitments at around £1,145 per month. The credit commitments figure appears to be on the low side, and I also find it surprising that the non-discretionary expenditure figure was significantly lower than twelve months prior. But CCB had verified that Mr W's net income was around £3,970 per month at this time. Even if they'd used the previous year's figure for non-discretionary expenditure and a more reasonable figure for credit commitments, CCB would still have estimated Mr W would have disposable income of over £500 per month. And so I'm satisfied CCB acted fairly in deciding this loan would likely be affordable for Mr W.

I appreciate Mr W entered into a debt management plan soon after the second loan was agreed, demonstrating that his financial circumstances were worse than might have appeared. But having carried out appropriate checks CCB were entitled to rely on the information they obtained. And I can't say that information showed that Mr W wouldn't be able to make the repayments due under his agreements with CCB.

#### *Did CCB treat Mr W 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 W 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 W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 3 March 2026.

Clare King  
**Ombudsman**