

The complaint

North Edinburgh and Castle Credit Union Limited trading as Castle Community Bank (CCB) provided Mr E with a loan in August 2023. The loan was for £15,000, with Mr E committing to make a first repayment of £462.84, followed by 46 monthly repayments of £442.27 and then a final repayment to clear the balance the following month.

Mr E says the credit was provided irresponsibly.

What happened

The details of this complaint are well-known to both parties, so I won't repeat them again here. The facts aren't in dispute, so I'll focus on giving the reasons for my 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 considered everything, I'm upholding Mr E's complaint. I'll explain my reasoning below:

What's required of lenders?

Mr E's loan agreement with CCB is an exempt agreement and therefore isn't subject to all the usual consumer credit regulations such as CONC. 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 E's financial circumstances and the affordability of the loan for him.

I've decided the credit wasn't provided fairly because:

- I don't think the checks CCB did before providing the credit were enough considering the credit it offered Mr E, what it saw from the checks it did do and what it knew about his financial situation.
- CCB verified Mr E's declared annual income of £45,000 through automated checks with the credit reference agencies (CRAs).

- But Mr E says he never stated he earned £45,000, and instead that it must've been pulled through by the credit broker he applied for the loan through. He says his actual annual income was around £24,000 before tax.
- On this occasion, CCB's primary automated check failed to verify an income of £45,000, so they relied on a secondary automated check via a different CRA.
- I understand CCB say the secondary check was completed at the same time as the first and wasn't of a lower quality, but I think the discrepancy found ought to have meant they verified Mr E's income via different means such as by requesting sight of his payslips or via a similar manual check.
- Had CCB done this, I'm satisfied they would've found Mr E actually received on average £1,687 each month after tax, not the £2,821 verified by the secondary automated check.
- Having looked at Mr E's bank statements, our Investigator found Mr E likely had around £460 disposable income each month, from which he was being asked to repay around £442 for the new loan with CCB.
- I don't disagree with the figures our Investigator found, but in any case, CCB found Mr E was likely to have non-discretionary expenditure of around £1,702 at the time of the application, this figure consisting of around £480 towards his existing credit commitments, £395 towards his mortgage and around £827 towards other essential expenditures.
- If CCB had done enough checks, I think it's likely these checks would've shown it was unfair to provide the credit to Mr E, this is because I'm satisfied, they would've found his actual net monthly income to be less than the essential expenditure he was already committed to.
- Mr E's declared purpose for taking out the loan was for debt consolidation. I've thought about this, but even if I was to be persuaded the loan was going to repay all of Mr E's existing credit commitment, he still wouldn't have been left with any disposable income of note.
- Based on the information Mr E's provided about his circumstances at the time, I think CCB should have realised he was likely to be unable to sustainably repay what he was being lent.

This means I don't think CCB should have provided the loan to Mr E.

I've considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I'm awarding in this case, as set out below, results in fair compensation for Mr E in the circumstances of this complaint. I'm therefore 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 CCB ought to have approved the lending, I'm upholding this complaint, and I don't think it's fair for CCB to be able to charge any interest or charges under the agreement.

Mr E should therefore only have to pay the capital he borrowed. Anything paid towards the agreement in excess of that amount should be refunded to Mr E as an overpayment.

To settle Mr E's complaint CCB should do the following:

- Refund any payments towards the agreement made in excess of £15,000 to Mr E, representing the original capital he borrowed. They should add 8% simple interest per year* from the date of each overpayment to the date of settlement.
- If any capital balance remains outstanding, then CCB should arrange an affordable and suitable payment plan with Mr E.
- Once Mr E has re-paid the capital, CCB should remove any adverse information recorded on his credit file regarding the agreement.

If CCB has sold the debt to a third party, they should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out.

*HM Revenue & Customs requires CCB to take off tax from this interest. If Mr E asks for one, CCB must give him a certificate showing how much tax it's taken off. here

My final decision

My final decision is that I'm upholding this complaint and North Edinburgh and Castle Credit Union Limited trading as Castle Community Bank must put things right as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 13 April 2026.

Sean Pyke-Milne
Ombudsman