

The complaint

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

What happened

In October 2024, Miss W applied for a loan with CCB, saying the purpose of it was to consolidate existing debts. They lent her £3,000 over a two-year term. The loan required Miss W to make 23 monthly repayments of around £162, followed by a final payment to clear the balance. Miss W didn't make any of the payments due. Instead, she entered into a debt management plan (DMP) and has been making reduced payments against the loan.

Miss W complained to CCB in December 2024, saying they shouldn't have given her the loan. She said at the time she had several other loans and was in her overdraft. She also said she had a history of gambling and that this was associated with poor mental health, from which she'd suffered for several years.

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

Miss W wasn't happy with CCB's response, so she brought her complaint to our service. In doing so, she set out a lengthy history of difficulties with managing money, addiction to gambling, and significant reliance on debt.

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 W remained unhappy. She said given the extent of her borrowing over the previous 18 months there was enough to indicate she was in financial difficulties. And she said a family member had cleared the arrears on her accounts for her, so her credit file wasn't a true reflection of her circumstances. Miss W 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 W's complaint for broadly the same reasons as our investigator. I appreciate this will be disappointing for Miss W, especially given what she's been through, but I'll explain more below.

What's required of lenders?

Miss W'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 W's financial circumstances and the affordability of the loan for her.

Did CCB carry out reasonable checks?

In her application, Miss W said her annual income was £39,432, and she lived in her own home with a mortgage to pay. CCB ran automated checks which looked at data from Miss W's application and from CRAs. CCB also estimated Miss W'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 showed them Miss W had 16 active credit accounts, but only owed money on six of these. She had around £105,000 outstanding on her mortgage and around £30,000 outstanding on a hire purchase agreement, with the rest of her debts totalling less than £1,000. The credit file showed she was up to date on all accounts but had missed some payments historically – she'd been in arrears for five months on her hire purchase agreement, and had missed occasional payments on two mail order accounts. But all her accounts had been brought back up to date, and she'd had no missed payments or arrears in the three months preceding her application. And Miss W hadn't taken out any significant new credit in the months leading up to the loan.

On the face of it, then, the credit report CCB obtained suggests that although Miss W might have experienced a short period of financial difficulty, it appeared that she'd recovered from this and likely wasn't in financial difficulties at the time she applied to CCB for the loan. Miss W has explained that a family member helped her to pay off her arrears and some of her debts. But I can't say CCB should have been aware of this. That's because Miss W's arrears weren't particularly high, sustained, or widespread so I wouldn't expect them to have questioned Miss W about the arrears.

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

CCB then used statistical data to estimate Miss W'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 W's essential spending would have been significantly higher than average.

On balance, I think CCB did carry out enough checks. The loan was for a relatively short period, of two years, and the monthly payments were relatively low, at around 6% of her estimated take-home pay. Although the checks were automated, this doesn't make them insufficient. CCB checked Miss W's income, reviewed her credit file, and estimated her disposable income. I've seen no indicators that this wasn't reasonable in Miss W'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 W was fair.

CCB added up Miss W's existing monthly credit commitments, monthly mortgage payments and an estimate of her monthly living expenses taken from statistical data. They also added on a "buffer" of £150, and the payments due for this new loan. Adding all these up, CCB estimated Miss W's total monthly expenditure would be around £1,960.

I've reviewed the figures CCB used and I'm satisfied that on the whole, they're not unreasonable. But the credit commitments figure was £50 less than Miss W's monthly repayment due on the hire purchase agreement. So this figure should have been higher, and if CCB had run the calculation with a more appropriate figure for existing creditors, they'd likely have decided Miss W's monthly expenditure would be around £2,000.

CCB told us they verified Miss W's net monthly income at around £2,630. So this would have left her with around £630 per month in disposable income, as well as the £150 buffer CCB had already included in their calculation.

In summary then, CCB estimated that Miss W would have plenty of disposable income even after taking into account the payments she needed to make to CCB. And, as I've explained above, their credit check suggested she wasn't in financial difficulties. On that basis, I'm satisfied CCB made a fair decision to lend to Miss W.

I appreciate Miss W's feels that CCB should have done more to understand her financial situation before lending to her. And I'm very sorry to hear she's been through such a difficult time. But a lender is entitled to rely on the information they obtain and to make reasonable assumptions based on that information. There's not a general requirement that a lender obtains an applicant's bank statements or makes further enquiries before deciding to lend. And in this case, the lending was relatively low value and Miss W appeared to be well able to afford the repayments. I'm therefore satisfied CCB obtained enough information and made a fair lending decision based on what they found, so I can't uphold her complaint. Even if I were to say CCB should have carried out more checks, it's likely I'd say they should have asked Miss W about her expenditure (rather than looking at her bank statements). And, given what Miss W's told us, I consider it unlikely that Miss W's actual financial circumstances would have come to light as part of that process.

Have CCB treated Miss 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 Miss W 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 W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 30 December 2025.

Clare King
Ombudsman