

## **The complaint**

Mr H complains Brent Shrine Credit Union Limited trading as My Community Bank (MCB) failed to carry out appropriate affordability checks before approving him for credit.

## **What happened**

In May 2020, Mr H took out a fixed sum loan with MCB. He borrowed £6,500, and the agreement required him to make 60 monthly repayments of £151.13.

In March 2025, Mr H complained to MCB about their decision to lend to him, saying the loan provided was unaffordable and shouldn't have been granted to him. He said the approval of the loan has contributed to him entering a Debt Payment Programme (DPP).

MCB didn't uphold Mr H's complaint, saying having reviewed the creditworthiness and affordability assessments completed prior to approving his application, they didn't agree they'd acted irresponsibly by lending to him.

Mr H remained dissatisfied with MCB's response, so asked our service to investigate. When doing so, he said he was experiencing significant financial pressure when he applied for the loan and a proper review of his financial situation would've shown he couldn't sustain further borrowing.

One of our Investigators looked into things and upheld Mr H's complaint, saying he didn't think the checks MCB carried out prior to lending were reasonable. Due to credit taken out by Mr H just prior to the application, he didn't think MCB could reasonably have relied on the income verification check they'd completed, nor ought they to have relied on statistical data when estimating his expenditure.

Our Investigator went on to say had MCB completed reasonable checks, he was satisfied they would've more likely than not found he had insufficient disposable income to be able to sustainably repay the amount he was lent.

MCB disagreed with our Investigator saying the credit Mr H had previously taken out was more than three months prior to the application, so it wouldn't have impacted the accuracy of the income verification check completed. They also said they didn't think Mr H having taken out credit was enough reason to suggest he was in any kind of financial difficulty, nor did they agree it made their use of statistical data unreasonable.

Because no resolution could be reached and MCB remained unhappy, this case has been passed to me to decide.

## **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, although I appreciate it'll be a disappointment to MCB, I'm upholding this complaint. I'll explain why.

### What's required of lenders?

Mr H's loan agreement with MCB 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 MCB needed to consider Mr H's financial circumstances and the affordability of the loan for him.

### Did MCB carry out enough checks?

MCB carried out their usual automated checks before approving Mr H's loan. This included reviewing his credit file, automatically verifying his declared income and obtaining his actual mortgage and existing credit commitments from the credit file check. This information was then used, alongside Office for National Statistics (ONS) data to estimate Mr H's other essential expenditure, to calculate his likely monthly disposable income.

Automated income verification checks generally look at the amounts going through a customer's current account.

Our Investigator said, due to Mr H having taken out two loans within the three months before, he didn't think on this occasion such a check would be accurate. But MCB have confirmed the check would only consider account transactions from the past 90 days – with both loans having been taken out prior to that.

Having considered what MCB have said, while I don't necessarily agree the turnover through Mr H's account would've been distorted by borrowing having previously credited his account, the account in question was a joint account. So, while MCB check might have verified his account was in receipt of funds that may have verified Mr H's declared income, I'm not persuaded they could have been confident the income related to him and not the joint party to the account.

In addition, the credit check MCB carried out shows at the time of his application, Mr H had a primary mortgage and a further loan secured against his property towards which together he owed around £129,000. Further, towards unsecured credit, his total indebtedness at the time was around £31,000 owed across two loans, three credit cards and a mail order account.

While the check showed MCB Mr H appeared to be managing all his existing credit well, they could see he'd taken out the two loans, borrowing a combined amount of £28,623, only four months prior. MCB also saw Mr H had opened the mail order account only around one month prior and had utilised around 45% of the £1,000 limit since its inception.

While I understand MCB don't consider the recent credit taken out by Mr H to be a concern, I disagree. I do think this pattern ought to have caused them some concern – Mr H had borrowed around £29,000 within the four months prior to this application.

So, in summary, although Mr H could be seen to be managing his existing credit accounts well, his credit file suggested he might be increasingly reliant on debt. In addition, I don't think MCB could be sure the verification of funds crediting his joint account, were in relation to the income he'd declared he was earning.

Because of this, I think MCB ought to have taken additional steps to verify Mr H's income and to understand his actual non-discretionary expenditure rather than relying on statistical data as they did.

#### If MCB had carried out further checks, what would they have found?

Just because I don't think MCB carried out enough checks, it doesn't mean I can automatically uphold Mr H's complaint. I now must consider what they would have found if they had carried out enough checks.

I'm not saying MCB specifically needed to obtain bank statements as part of their credit worthiness checks. I don't think they did. To verify Mr H's income, they could've requested sight of his payslips for example, and regarding his essential expenditure, they could've simply asked him rather than relying on statistical data.

But in hindsight and in the absence of other information, I think bank statements provide me a good indication now, of Mr H's essential expenditure over the months prior to when the lending decision took place.

As I've already said, I think MCB should have done more to check Mr H's income. If they had of done, I'm satisfied they'd have found him to be earning on average around £1,944 net each month, which was the equivalent to a gross annual income significantly less than he'd declared.

Next, I've thought about what MCB would've found out if they'd checked more into Mr H's actual essential household expenditure which, as our Investigator explained, the cost of which he split equally with the joint account holder.

I'm satisfied Mr H's bank account statements show his average monthly expenditure towards essential spending was around £680. Approximately each month on average this consisted of around £420 towards food and travel, around £137 towards telephone or television contracts and around £123 towards insurance policies.

I've not seen any spend towards council tax or utilities on Mr H's statements but even without these outgoings, after including Mr H's 50% contribution to both his mortgage and the secured loan of £486 and his credit commitments of £660, both of which MCB obtained from the credit check, I think they'd have found his essential expenditure to be around £1,824 a month.

So, while Mr H's other non-discretionary expenditure does appear to be slightly lower than MCB estimated (at around £678 rather than £846), his actual income meant he was left with around £120 disposable income. Clearly not enough to have made the loan repayments of around £151 affordable. As such, I don't think MCB acted fairly by approving his loan.

#### Did MCB treat Mr H 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. However, I'm satisfied the redress I've directed below results in fair compensation for Mr H 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 ought to have approved the lending, I'm upholding this complaint, and I don't think it's fair for MCB to be able to charge any interest or charges under the agreement.

Mr H 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 H as an overpayment.

To settle Mr H's complaint MCB should do the following:

- Refund any payments towards the agreement made in excess of £6,500 to Mr H, 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 MCB should arrange an affordable and suitable payment plan with Mr H.
- Once Mr H has repaid the capital, MCB should remove any adverse information recorded on his credit file regarding the agreement.

If MCB 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 MCB to take off tax from this interest. MCB must give Mr H a certificate showing how much tax it's taken off if he asks for one.

## **My final decision**

My final decision is that I uphold Mr H's complaint and instruct Brent Shrine Credit Union Limited trading as My Community Bank to settle the complaint as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 19 February 2026.

Sean Pyke-Milne  
**Ombudsman**