Financial Ombudsman Service

The complaint

Mr W is complaining about North Edinburgh and Castle Credit Union trading as Castle Community Bank (CCB). He's unhappy about the way they treated him when he was in financial difficulties and the impact this has had on his credit file.

What happened

CCB lent Mr W £10,000 in April 2023. Under the agreement, he had to pay them around £250 per month for 60 months. Mr W quickly fell into arrears and in January 2024 told CCB he was in financial difficulties. CCB issued a notice of default in February 2024 and then defaulted Mr W's account. But when Mr W complained in April 2024, CCB reversed the default and credited Mr W's account with £50 in compensation. Mr W continued to struggle with the repayments and CCB issued a second notice of default and then a formal demand and default in August 2024. Mr W complained again.

In summary, Mr W complained that CCB hadn't communicated with him properly or supported him enough before defaulting his account. He was upset that he'd never received any letters in the post and said that if CCB hadn't received replies to their emails to Mr W then they should have posted the letters and also called Mr W to attempt to resolve the matter. Mr W was also upset that he hadn't received a call back as he'd been promised, despite chasing this up over email. However, his main concern was that he hadn't received any warning of the default at the end of August 2024, and he wanted the default removed. He said the whole matter had had a significant impact on his mental health and was likely to impact his employment and earning potential.

CCB partially upheld Mr W's complaint, offering him £25 in compensation. When Mr W brought the complaint to our service, CCB acknowledged their communication hadn't been as good as it should have been and offered a further £100, taking the total compensation offered to £175. One of our investigators looked into the complaint and said he thought this was enough to compensate Mr W for the poor communication. Our investigator didn't think the poor communication had contributed to the default, and felt CCB had followed the right process and sent adequate warning of the default.

Mr W remained unhappy. He said he'd tried multiple times to contact CCB on the phone and never received the promised callback from a senior member of staff. He reiterated that he hadn't received correspondence warning him of the default. And he reiterated the impact the default and poor communication had had on his mental health and the likely impact it would have on his work. He said the situation could have been avoided if CCB had corresponded with him effectively and discussed the matter over the phone.

Finally, Mr W said CCB acted irresponsibly in lending to him in the first place.

Mr W asked for an ombudsman to review his complaint – and it'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 upholding Mr W's complaint for broadly the same reasons as our investigator, and directing CCB to pay the redress they've offered. I'll explain my decision below.

Default

The crux of Mr W's complaint is that CCB defaulted his account without warning at the end of August 2024. But I've seen a copy of the emails CCB sent to Mr W on 8 July 2024 and 6 August 2024. These Notices of Default told Mr W that if they weren't able to make some progress towards resolving the arrears within 14 days then the account would be defaulted.

Mr W says he didn't receive these emails. But I can't hold CCB responsible for that – I can see that they sent them. Mr W also says such important correspondence should have been sent in the post. But CCB's terms and conditions are clear that they'll correspond by email and that this should be treated as being as important as postal correspondence. I've also seen that CCB tried to call Mr W six times between the end of June and the end of July 2024, leaving voicemails on four of these occasions. So, I'm satisfied that as well as sending the Notices of Default, CCB tried to proactively reach out to Mr W to understand his circumstances before defaulting the account.

The Information Commissioner's Office (ICO) says when a consumer is at least three months behind with their payments then a default may be registered. And the ICO expect a default to be registered by the time the consumer is six months behind with their payments. That's because by this time it would be clear that the consumer is unable to make their contractual payments.

Mr W's statement of account shows he made contractual repayments broadly on time for the first six months of the loan. He then didn't pay anything between November 2023 and February 2024, made a contractual payment in February 2024, a reduced payment of £100 in March 2024, and two payments of £176.64 in May 2024 and August 2024. So by August 2024, he was effectively almost six months behind with his payments – there had been five months in which he'd paid nothing and three months in which he'd made reduced payments. On that basis, I'm satisfied CCB acted fairly in defaulting Mr W's account. From what I've seen, the default is a fair representation of the state of the account.

So, in summary, I'm satisfied CCB gave Mr W adequate notice of the default and acted fairly in applying the default to his account. Whilst I appreciate how upsetting this will be for Mr W, particularly given his career aspirations, I won't be directing them to remove the default.

Communication and support

I've reviewed the contact notes, emails, and phone calls between CCB and Mr W from when the account was opened up until the time Mr W brought his complaint to us. Having done so, I agree with CCB that their communication should have been better. There have been several times when Mr W sent in detailed emails explaining his circumstances and was met with no response. Instead, he continued to receive standard "chaser" emails reminding him that he needed to pay. This must have been extremely frustrating for Mr W.

Mr W said he'd tried repeatedly to get through on the phone to CCB and not been able to, so I can understand why he continued to email. And I think CCB should have done better in acknowledging and addressing these emails rather than continued to send templated chasers.

In addition, Mr W was promised a callback from a manager when he spoke to CCB after the default was registered and formal demand sent. CCB didn't honour their promise. Again, I can appreciate how frustrating this must have been.

We'd expect businesses to consider what measures they could take to support consumers in financial difficulty. This might include putting in place affordable payment plans and freezing interest charges. I can see CCB have done both of those during the course of the loan. So I'm satisfied they've treated Mr W fairly in this respect.

Irresponsible lending

Mr W also said he thought CCB had been irresponsible in lending to him and the debt should therefore be written off. However, CCB dealt with this as a separate complaint and so I won't consider the matter further in this decision.

Putting things right

It's appropriate that CCB pay Mr W some compensation for the distress and inconvenience their poor communication has caused Mr W. To date CCB have credited Mr W's account with £50. And they've offered to pay him an additional £125. I'm satisfied that's a fair amount to reflect the upset caused by poor communication.

I appreciate Mr W's mental health has suffered and the overall impact on him may feel much greater than this. But my view is that much of this is because of the arrears and the default. As I've explained, I'm satisfied CCB have treated Mr W fairly in respect of his arrears and the default. So I can't say they should pay compensation in respect of this and I can only award compensation for the impact of CCB's poor communication.

My final decision

As I've explained above, I'm upholding Mr W's complaint. North Edinburgh and Castle Credit Union trading as Castle Community Bank need to pay him £125 to settle the matter.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 20 August 2025.

Clare King
Ombudsman