

The complaint

Mrs O complains about 1st Class Credit Union Limited's (1st Class) decision to reverse part of a consolidation loan it had previously offered her.

Mrs O's also unhappy 1st Class declined a subsequent loan application she made and that they gave her conflicting reasons and incorrect information as to why her application wasn't approved.

What happened

In July 2023, 1st Class approved Mrs O's application for a debt consolidation loan. The loan was for £10,144.62. £7,659.62 of the funds (step 1) were immediately released, with the remaining £2,485 (step 2) to be released on the provision of evidence the consolidated debt had been repaid and the accounts closed.

In June 2024, Mrs O let 1st Class know she still had evidence of the consolidated debt to provide. Mrs O called 1st Class again in August 2024 to enquire about the release of step 2, but she was advised it had been reversed, used to reduce her outstanding loan balance and the funds were no longer available to use for consolidation.

She was told at the time this was due to her having missed repayments towards the loan, but this was incorrect and the reversal had occurred because she'd not provided evidence of the debt consolidated with step 1.

In October 2024, Mrs O applied for a further loan, but her application was declined.

In April 2025, Mrs O complained to 1st Class about their decision to withdraw step 2 from her July 2023 loan. She said their failure to disburse the remaining funds had led to her suffering increased financial hardship as the further consolidation could've reduced her financial burden by over £500 a month.

Mrs O also raised her concerns about the lack of transparency regarding loan eligibility and with the conflicting information provided as reasoning for why her October 2024 application had been declined.

1st Class didn't think they'd done anything wrong by withdrawing step 2 of the July 2023 loan, as she'd not shown them the step 1 funds had been used as had been intended. They also said regarding the October 2024 application, it had been declined as Mrs O hadn't met their lending criteria at the time.

But while 1st Class said they were satisfied the terms of the July 2023 loan were transparent, they recognised Mrs O's concerns about having paid interest on step 2 of the funds which she'd not received, so they offered to refund £238.40 in interest, plus statutory interest of 12.5% amounting to a further £29.82. They said if Mrs O was happy to accept the amount, the funds would credit her outstanding loan balance.

Mrs O remained unhappy, so referred her complaint to our service. She said she was never

informed of a timeline for accessing step 2 of the July 2023 loan and that no prior notice was given regarding the withdrawal of the funds. She also said despite having never received step 2, she was charged interest on the full amount and disagreed with 1st Class only offering a partial refund.

Mrs O added she was incorrectly told the reason why step 2 had been withdrawn and during her later loan application, she was provided incorrect information about the remaining term of her existing loan and the reasons for the further application being declined.

One of our Investigators looked into things but said while she recognised no deadline for accessing step 2 of the July 2024 loan was given, she didn't think Mrs O had contacted 1st Class about it in a timely manner and she could see they'd attempted to contact her some months prior, so she didn't think they'd acted unfairly by having already withdrawn access to the funds.

Regarding the declined application in October 2024, our Investigator said they'd made a commercial decision not to lend and whilst Mrs O had been provided with conflicting reasons for the decline, 1st Class had explained a combination of her credit score having decreased and her outstanding credit having considerably risen had both been factors towards the decline.

Mrs O disagreed with our Investigators opinion raising multiple concerns including, in part, 1st Class's failure to directly inform her they planned to withdraw step 2 of the July 2023 loan and of their failure to provide evidence of their attempted contact to speak to her about it.

Mrs O added our Investigators opinion was based on assumptions when she ought to have applied evidence-based decision making.

Because a resolution couldn't be reached, this complaint 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, while I am upholding this complaint, this is because I think 1st Class's offer to put things right by refunding the interest charged for the funds, which she never had use of, is fair and reasonable. This puts Mrs O back in the position she would've been in in terms of the interest charged had she taken out a loan just for just the initial step 1 funds released.

I know it will come as a disappointment to Mrs O but, regarding her other concerns, I've reached much the same outcome as our Investigator. I'll explain why.

But first, I'm aware I've summarised Mrs O's concerns in less detail than has been provided, and I've done so using my own words. No discourtesy is intended by this. Instead, I've concentrated on what I think are the key issues here. Our rules allow me to do this.

This reflects the nature of our service as an informal alternative to the courts. If there's something I've not mentioned, it isn't because I've ignored it. I haven't. I'm satisfied I don't need to repeat or comment on every detail here, to be able to reach what I think is the right outcome that's reasonable in the circumstances of this complaint.

Also, I recognise Mrs O says her complaint should be decided based on evidence and I'd like to reassure her I've considered everything that's been provided by both her and 1st Class when reaching what I consider to be a fair and reasonable outcome here. But it's also

important to say that where evidence is incomplete or inconclusive (as some of it is here), I've reached my decision on the balance of probabilities, deciding what I consider most likely to have happened in light of the evidence that is available and the circumstances of this complaint as a whole.

Loan - July 2023

I consider the crux of Mrs O's complaint here to be the lack of a specific deadline by which she needed to comply with the terms of step 1 and 1st Class's reversal of part 2 without prior notification.

First, I do agree I've seen nothing to suggest Mrs O was provided with a specific date by which she needed to comply with the terms of step 1. But I don't think the absence of a date means she could reasonably assume the funds would remain available indefinitely.

When taking out the loan, Mrs O had to provide balances of the debt the funds were to consolidate. A loan was provided for the exact amount of debt owed. So, I think a reasonable person would conclude that the repayment of the external debt was intended to be completed promptly and prior to allowing the opportunity to arise for those debts to increase, for example, as a result of interest accruing on the debt owed or further spending taking place on the accounts.

In addition, a letter 1st Credit sent on the day the loan was taken out informed Mrs O that, *"During these stages (steps 1 and 2) if you fail to close these debts or apply/receive further credit we won't move forward with your loan"*. The letter went on to say, *"Please note that at any time this offer can be withdrawn by a loan officer if any missed payments occur or you fail to follow these steps"*.

So ultimately, I don't think the absence of a deadline matters here. Mrs O was aware 1st Class could withdraw the offer at any time should she fail to follow the terms of step 1 and around six months after taking it out, she'd failed to evidence that she had done.

That said, I would've expected 1st class to inform Mrs O they planned to withdraw step 2, or at least that it had been withdrawn. And I'm satisfied they more likely than not did. I'll explain why.

1st Credit say they attempted to contact Mrs O in January 2024, around six months after the loan was first opened, to inform her step 2 of her loan would be cancelled if the documents they required weren't received within the following few weeks. Around one month later, the funds relating to step 2 were reversed.

1st credit has provided me their system notes from which I can see an entry was added in January 2024 saying, "Called member relating to debt cons loan, pass call to myself. 2nd part of loan will be cancelled if no documents rec in the next few weeks. Voicemail left, email text and letter sent".

Due to the time that's passed, 1st credit has been unable to provide any further evidence relating to this communication and I don't think that's unreasonable. The contact note was added in real time, not in hindsight so I've no reason to suspect what is detailed in the note didn't happen. The timeline also follows as part 2 was cancelled around the same time the following month.

So, in summary, I don't think 1st Class did anything wrong by cancelling step 2 when they did. They gave Mrs O six months to evidence step 1 had been used as intended and she didn't do this. Whilst I recognise she did later provide evidence, by this point step 2 was no

longer available and had been withdrawn. I don't think 1st Credit acted unfairly here.

But 1st Credit did recognise Mrs O's concerns about paying interest on step 2 when she never had use of those funds. To put things right they agreed to refund £238.40 interest, along with statutory interest of 12.5% amounting to an additional £29.82.

This action equates to 1st Credit refunding all the additional interest Mrs O paid and means she will have only of paid interest on the step 1 funds she had use of. I think this is fair and I'm pleased to say 1st Credit have confirmed the offer to refund these amounts back to her loan remains, should she accept this decision.

Loan application – October 2024

1st Credit assessed Mrs O's application and decided to decline her request for a loan because she hadn't met their lending criteria. After reviewing her appeal, their outcome remained the same. 1st Credit ultimately made a business decision to decline the loan and it's not within the remit of our service to tell a business they must lend money to someone.

As I've explained I can't tell a business they must lend to someone, I'm not going to discuss the detail of their lending decision again here in any detail. Mrs O has been provided the reasons for the decline. I'm satisfied 1st credit haven't acted unfairly here.

Did 1st credit act unfairly in any other way?

Finally, I've thought about how 1st Credit treated Mrs O throughout their relationship with her, especially when she found herself in financial difficulties.

I would expect to see 1st Credit treat Mrs O with forbearance and I'm satisfied they did do. I can see from the notes provided she was afforded a payment holiday in December 2024 to assist her financially and that they kept her updated regarding the status of her account.

So, in summary, I've not seen anything to suggest 1st Credit acted unfairly. And I don't think they need to do anything further than what they've already offered to do here to put things right.

Putting things right

As I've explained, in their final response letter, 1st Class offered to refund to Mrs O's outstanding loan balance all the interest relating to the additional funds she never accessed.

This amounted to interest totalling £238.40, along with statutory interest of 12.5% amounting to a further £29.82. As Mrs O never had use of the additional funds, I think 1st Class's offer is fair.

To put things right, 1st Class should refund the above amounts to Mrs O's outstanding loan balance with them.

My final decision

My final decision is that I uphold Mrs O's complaint and instruct 1st Class Credit Union Limited to apply the refund to Mrs O's outstanding loan balance, as offered in their final response letter.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs O to accept or reject my decision before 16 March 2026.

Sean Pyke-Milne
Ombudsman