

The complaint

Mr T complains that Zopa Bank Limited ("Zopa") refused to default his account until he was six months in arrears. He's also unhappy that Zopa told him it would be consider a partial settlement offer until the account had defaulted.

What happened

Mr T took out a credit card with Zopa in February 2021 with a credit limit of £900.

In September 2023 Mr T contacted Zopa to advise them that his income had reduced. He agreed a payment plan for £9 per month. Mr T said he wanted to put forward an offer to partially settle the account. Zopa advised Mr T to contact them about this once the payment plan had ended.

In January 2024 Mr T contacted Zopa and asked about partial settlement again. Zopa advised Mr T that a partial settlement couldn't be considered until the account had defaulted. It said a default would only be applied once the account was six months in arrears.

Mr T complained to Zopa. He said he'd originally been told that he could partially settle the account after he'd been on a payment plan for six months. He was also unhappy that interest and charges continued to be added to the account.

Zopa didn't uphold the complaint. It said it did not offer reduced settlement on credit card accounts unless the account had defaulted. It said that once four payments had been missed the card would be revoked and once six payments had been missed the card would be defaulted, and that if Mr T wished to close the account before then he would need to pay the full balance. Zopa said that interest and charges would continue to be applied until the card was revoked, at which point interest and charges would be suspended.

Zopa said it could see that when it had spoken to Mr T in November 2023, it had agreed that a repayment plan of £9 per month would be reset for two months. It had also agreed that it would put a 30 day breathing space in place until the account had defaulted, which would enable Mr T to pay a partial settlement. Zopa said that due to payments being made, the arrears had reduced meaning that the account was further away from defaulting. It said it couldn't expedite the default process.

Zopa acknowledged that Mr T had been kept waiting a long time when he called. It apologised for the service Mr T had received and offered compensation of £30.

Mr T remained unhappy and brought his complaint to this service.

Since Mr T referred his complaint to this service his account has been defaulted.

Our investigator upheld the complaint. He said he thought that Zopa should have defaulted the account sooner, when it was three months in arrears. The investigator said that Zopa should backdate the default to when Mr T's account was three months in arrears and remove all fees, charges and interest applied after this three-month point (if any). The

investigator said that it was a commercial decision for Zopa whether it accepted Mr T's partial settlement offer but that it was fair that Zopa considered the offer. The investigator said that Mr T had raised the issue of partial settlement several times with Zopa which had caused him distress and inconvenience. The investigator recommended that Zopa pay further compensation of £70 to Mr T.

Zopa didn't agree. It said it didn't default credit card accounts until they were six months in arrears.

As Zopa didn't agree the complaint has been referred to me for a final 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.

The Information Commissioners Office (ICO) has issued guidance which says that lenders can default an account when a consumer is at least three months in arrears. The guidance also says it expects lenders to default an account by the time a consumer is six months in arrears.

Zopa has said that it has made a business decision not to default credit card accounts until the consumer is six months in arrears so as to provide consumers with the most support possible to get back on track.

Mr T contacted Zopa to explain that he was in financial difficulties in September 2023. He says he was told that at the end of his payment plan, he could partially settle the account. Zopa explained that it couldn't consider partial settlement until the account had defaulted. Based on the information he'd been given by Zopa, Mr T was expecting the account to be defaulted in February 2024. Therefore he called in January 2024 to discuss a partial settlement offer.

Zopa told Mr T in January 2024 that the account couldn't be defaulted for another 3 months. Zopa stated in its final response that this was because the payments Mr T had made had reduced his arrears. Looking at the account, I think what happened was that the default was paused whilst the payment plan was in place.

I accept that there may be situations where it is beneficial to delay defaulting an account. However, in Mr T's case, the extent of his other credit commitments and his reduced level of income meant that it was very unlikely that he was going to be able to resume contractual payments to the account. In other words, I don't think it was likely that Mr T was going to get "back on track". That being the case, I don't think it was reasonable for Zopa to wait until there were six months of arrears before they defaulted the account.

The delay in defaulting the account impacted Mr T because he wasn't able to have his partial settlement offer considered until the account had defaulted. The delay has also impacted Mr T insofar as the default will remain on his credit file for longer than it would've done had it been done sooner.

I understand that the account was defaulted in March 2024. Mr T said he wasn't aware of this until recently. It isn't clear whether Mr T has now made a partial settlement offer. It's up to Zopa whether they accept a partial settlement offer or not. This service can't require Zopa to accept it. However, this service would expect Zopa to act fairly and reasonably by considering any partial settlement offer put forward.

Mr T has had to contact Zopa several times about his wish to make a partial settlement offer. He was under the impression that he could do so once his account was six months in arrears. I think Zopa could've provided Mr T with a clearer explanation about how the payment plan would impact on the arrears. Taking everything into account, I don't think the compensation of £30 already offered by Zopa is sufficient to recognise the distress and inconvenience caused to Mr T. I agree with the investigator that further compensation of £70 should be paid.

Putting things right

To put things right, Zopa Bank Limited must backdate the default to the point when Mr T's account was three months in arrears. Zopa must also remove any fees, charges and interest which has been added to the account since the three month point.

Zopa Bank Limited must pay further compensation of £70 to Mr T.

My final decision

My final decision is that I uphold the complaint. Zopa Bank Limited must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 27 August 2024.

Emma Davy
Ombudsman