

## The complaint

Mr S complains that Zopa Bank Limited acted unfairly when it defaulted his loan account.

## What happened

Mr S took a fixed sum loan with Zopa in January 2023. The loan including interest was £16,932.56, £705.52 per month, payable over 24 months.

Mr S said in June 2023 he was made redundant unexpectedly. He said he informed Zopa immediately. Zopa agreed to a six month freeze on his account during which time the interest was frozen. Mr S said after the initial communication he didn't receive any further correspondence from Zopa by email or post. Mr S said he found a new job in December 2023 and wanted to resume normal payments. He said he was under the impression his payment plan ended on 1 December and on 1 January 2024 he would go back to the usual payments. On 1 January he said his direct debit went out as usual.

Mr S said he spoke with Zopa in mid December through the live chat function. He said he was informed that not only had he to make usual monthly payment but also an additional payment of £2,780 to avoid defaulting the account. Mr S said this was a difficult time for him as he was emerging from unemployment and facing mental health challenges. He said he was met with conflicting information and unhelpful responses from Zopa.

In its final response Zopa said it hadn't treated Mr S unfairly. It said it provided him with a reduced payment plan for six months and hadn't encouraged him to make payments he could not afford at any point. It said the Notice of Default had been issued in line with its guidelines, where three or more repayments under the agreement had been missed, while Mr S agreed to pay his contractual amount, he had been unable to clear any of the arrears.

Mr S brought his complaint to this service. Our investigator concluded that Zopa had acted reasonably and fairly when it defaulted Mr S's account. Mr S didn't agree and asked for a decision from an ombudsman. He said when he entered the payment plan at no point was he advised that if he did not contact the lender after the six month period he would be at risk of defaulting. He said given his payment plan ended in December and he believed he would continue with regular payments he couldn't understand why he was being penalised for this. He said it's disgraceful that if he had made contact and reached out to Zopa one to two weeks before, he wouldn't be in this position.

I issued a provisional decision on 23 January 2025. I said:

*In deciding what I believe to be fair and reasonable, I'm required to consider relevant law, rules, guidance, codes of practice as well as what I consider to have been good industry practice at the time. I've looked at what the Information Commissioner's Office (ICO) says about what should or shouldn't be reported to the credit reference agencies (CRA's). ICO principles state a Default would usually occur if the customer falls into arrears on their account, or they do not keep to the revised terms of an arrangement. A Default may be recorded to show that the relationship has broken down. Generally, this may occur when a consumer is three months in arrears, and*

normally by the time a consumer is six months in arrears. Businesses are also required to send the consumer a 'notice of sums in arrears' (NOSIA) letter asking them to bring the account up to date by a certain day. If a consumer fails to do so then a Default can be recorded on the consumer's credit file.

Having looked at the letters Zopa sent to Mr S in December 2023 I can see that it issued a NOSIA letter and despite speaking to Mr S it didn't receive a payment from him to pay off some or all of the arrears so the loan defaulted. So I can see communication was sent during the period after the arrangement ended. But I'm not persuaded Zopa has treated Mr S fairly and reasonably from June until the account defaulted.

#### *Payment arrangement*

I've listened to two phone calls between Zopa and Mr S in late June 2023 when Mr S informed Zopa he had been made redundant and a payment plan was arranged. I've also read several live chat conversations from June and from December.

During the phone calls it's clear the advisor is keen to help Mr S and provide a payment plan. And the payments agreed - £30 per month for six months – were significantly less than the loan agreement. The advisor added that if anything changes it can be reviewed and the plan could be amended. She asked Mr S if she needed to read out the direct debit mandate and Mr S said she didn't. While I note the advisor appeared sympathetic to Mr S's situation and was trying to be helpful, at no point did she explain the terms and conditions of the agreement, what would happen if payments weren't made, and crucially, what would happen at the end of the agreement and what Mr S needed to do, by when.

Mr S initiated an online chat shortly after to ask for confirmation of the plan:

*Zopa: I can confirm that you are on a reduced payment plan for £30 for 6 months payment via direct debit. You will also receive an email with confirmation of your payment plan.*

*Mr S: Hi yes I received the email thanks. To confirm the £30 a month is for the entire loan amount?*

*Zopa: Yes, it's a reduced payment that you will make for six months, your arrears will accumulate while you are paying a reduced amount. After the payment plan has ended you will be expected to start paying your monthly payment with a little bit extra to clear your arrears.*

As far as I can see this is the only mention in the calls or live chat of how Mr S would be expected to clear his arrears - and only "a little bit extra" is mentioned, not a lump sum. Mr S made it clear in the live chats I've read that he intended to restart his normal monthly payment and the first payment did indeed go out in January.

I asked Zopa to send me any communication it sent to Mr S confirming the payment arrangement. It sent a copy of two emails, both undated; one email has details of an arrangement to pay £30 per month for two months, the first payment being due on 1 November. It's not clear to me why this email was sent given it says only two months and the arrangement was made in June for six months. The second undated email confirms the plan is due to end on 1 December. It says:

*"this means that you'll need to resume making your regular contractual*

monthly payments...

What will happen next?

We'll need to reassess your finances to help us decide on the next steps. It's really important you get in touch with us as soon as possible to discuss your situation and come to an agreement on how to move forward. Whilst you've been on your repayment plan, you may have been building arrears, so we need to work together to discuss how you'll be able to repay that amount too, along with your contractual payments.

We hope that you'll be able to return to your original contractual payments and reinstate your Direct Debit. But if you can't do this for any reason, we can discuss your options and we may be able to put a longer-term repayment plan in place. It may be necessary to Default your loan, which will affect your credit rating..."

Again, there is no deadline by which time Mr S would need to make contact before further action would be taken.

I'm not persuaded that Mr S was made sufficiently aware in June of the risk of Default with the build-up of arrears when he put the agreement in place. Nor am I persuaded he was made reasonably aware of what he needed to do when the arrangement ended on 1 December.

Payment of Arrears and Default

I've seen a copy of a NOSIA letter dated 5 December 2023 from Zopa. It requests Mr S contact Zopa urgently to discuss settling his loan balance which at that point was £14,666. There is no deadline on the letter.

I've also seen a copy of a Default Notice sent to Mr S dated 12 December. This is 5 working days after the NOSIA and only seven working days after the arrangement ended. The letter gives Mr S a deadline of 11 January to pay off his arrears.

On 27 December Mr S contacted Zopa on live chat. He confirmed he was able to resume normal payments of £705.52. He was then advised he would need to make a one-off repayment of £2,780 to reduce his arrears. The advisor said that only once this payment had been made would Zopa look to putting in a payment plan for the rest of the missed payments. This payment was needed to avoid the account defaulting. Mr S explained that he wouldn't be able to make this payment and asked for the arrears amount to be divided equally between the remaining months. This wasn't possible and no other options were offered. Mr S also said:

Mr S: Thanks for explaining! I wish this was explained to me in June when I reached out initially! None of the above was mentioned and what could potentially happen. I was just given a payment break. If I knew this, I would have been able to prepare. Or have time to figure it out. Sending me something on 12 December (two weeks Christmas as well) about the next steps isn't that much time.

The advisor replied:

I can see on our last chat 6 months ago, it was advised that you would need to make extra payments to make up for the arrears.

*I'm not disputing that 'extra' payments weren't mentioned but as I said previously, I'm not persuaded the full situation was explained to Mr S in June.*

*Mr S asked again if there were any other options, and the advisor said the deadline for payment of the lump sum was 11 January. Mr S asked if he was able to use an international credit card by someone who can help him living abroad. The advisor confirmed a payment could be made from overseas. Mr S had a further live online chat on 10 January where he again confirmed he was able to make the normal monthly payments and asked what support Zopa was able to provide regarding the one off payment. The advisor said:*

*Unfortunately, due to the notice of Default being issued we require that payment to reduce the arrears or the account will proceed to Default.*

*I've not seen any communication prior to 5 or 12 December which explained a lump sum would be needed. And Zopa only gave Mr S a week to make contact and make a lump sum payment. I don't think this is a fair or reasonable amount of time.*

*The advisor went on to explain that payment by international credit card wasn't possible. So it does appear Mr S was given incorrect information in his previous chat.*

*I can see that at this point Mr S was extremely frustrated.*

*Zopa: So I can see you had a reduced plan in place in June, due to no payment the plan broke. We also sent the notice of Default to you advising you had 30 days to contact us and set an arrangement or the account would Default.*

*Mr S: I want to say phone maybe? Because I do not remember nor recall anyone telling me this. I did not get the letter you are talking about either. The reduced payment plan was set up for six months of £30 a month... and I paid £30 a month, every month? Not once was I told that once I start repaying I will have to make a large payment to clear arrears. All I was told is that you guys are supporting me with a reduced payment plan and to discuss my circumstance with you which I've been very transparent and have done.*

*The conversation continued:*

*Zopa: Just to confirm, we Default your account at 4 missed payments, you are at 6.5 missed payments. The reason a notice of Default was not issued sooner is because you was in a reduced plan, due to the plan ending and there being no contact from yourself to put an arrangement in place a notice of Default was issued. Once issued, we cannot offer a reduced plan, you would need to reduce the arrears, continue with normal payments and put a payment arrangement in place to avoid the Default. Does that make sense?*

*Mr S: Yes but this was not communicated to me! I'm telling you when I made the payment plan it was for 6 months. Then it would end in December, and I knew that in January the £705 monthly payments as regular would continue so I didn't reach out as I didn't know I had to. I have no reason to lie, look how hard I'm fighting to not Default and to pay off my account in full.*

*As far as I can see Mr S did not break the payment arrangement. The deadline on the Default Notice was for payment of a lump sum. It wasn't a deadline for Mr S to make contact. Mr S has said he didn't receive communication in early December. I'm*

*satisfied the letters were sent but even if he had received them, I'm not persuaded it was fair and reasonable for Zopa to only give Mr S five working days to respond to the NOSIA letter before issuing the Default Notice. It's clear to me that Mr S had been transparent about his circumstances and wanted to reduce his arrears in good faith and asked several times in the live chats for solutions that would help him. He was only ever met with one option – to pay a lump sum – despite this not being explained to him in June.*

*Mr S was aware he was missing his regular payments so ought reasonably to have been aware he was building an arrears. It seems he was able to meet his regular repayments from January and asked for help with the arrears before the first regular payment was even due.*

*The potential consequences of the payment plan and arrears, and the actions Mr S would need to take regarding the arrears were not explained clearly or fully in June. And I don't believe that Zopa acted fairly or reasonably or with forbearance when the payment plan ended by giving him only between 5 and 12 December to respond and not allowing him to make a further plan for the arrears without a lump sum.*

So, subject to any further information I might receive I considered it fair and reasonable that the Default be removed. I said that after removing the Default, Zopa should recalculate the loan amount and any arrears taking into consideration any payments Mr S has made since the Default. I said if there are still arrears Zopa should then agree with Mr S an affordable payment plan, explaining in full the consequences of not keeping to the plan.

Mr S has described how this situation had affected him and caused him worry and distress as he was trying hard to avoid the Default. So, I do think Zopa should pay him £250 in compensation.

I drew Mr S's attention to the following – Zopa will remove the default which may mean interest and charges will resume. If he again falls behind or fails to pay what is owed this could lead to a Default appearing on his credit file for longer than the usual six years as the Default 'clock' would effectively restart.

Both parties accepted my provisional decision findings.

### **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.

As both parties have accepted my provisional decision conclusions, I see no reason to depart from them.

### **Putting things right**

To put things right Zopa Bank Limited must:

- Remove the Default from Mr S's credit file;
- Re-calculate the loan amount and any arrears taking into consideration any payments Mr S has made since the Default.
  - If this means buying back the loan from a third party, then it should do so.
- If there are still arrears Zopa should agree with Mr S an affordable payment plan,

- explaining in full the consequences of not keeping to the plan.
- Refund any interest and charges from 1 December 2023 until the date a new payment plan has been agreed.
- Pay Mr S £250 in compensation. Zopa should agree with Mr S if the payment should be paid to his bank account or to off-set his loan.

### **My final decision**

My final decision is I uphold this complaint and Zopa Bank Limited must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 28 February 2025.

Maxine Sutton  
**Ombudsman**