

The complaint

Mr P complains that Zopa Limited (Zopa) lent to him irresponsibly.

What happened

In November 2017 Mr P applied on-line to Zopa for a £15,000 consolidation loan repayable over a four-year term. Zopa approved the loan and later that month the loan amount was paid into one of Mr P's current accounts. Mr P's monthly repayments were confirmed at just over £480.00 per month.

Mr P made the first repayment in January 2018. But according to Zopa no further payments were received. The loan was defaulted in June 2018 and in October 2018 Mr P's debt was sold to a debt collection agency. I understand proceedings have been launched to recover this debt, but they've been paused pending the outcome of Mr P's complaint at this service.

In July 2019, Mr P complained to Zopa that it shouldn't have granted him the loan because at the time he had a gambling problem. He said Zopa approved the loan without verification of his income as an apprentice electrician and neither did it ask to see his bank statements. Mr P felt that if Zopa had seen his bank statements it would have realised he had financial problems which were caused by gambling and therefore wouldn't have lent him the money.

Zopa didn't think it had done anything wrong. It said when Mr P applied for the loan, checks on his credit file showed no adverse repayment information. Also, when Mr P's outgoings were compared to his declared income there were no concerns regarding the affordability of the loan.

Mr P wasn't happy with Zopa's response and referred his complaint to this service.

Our investigator was satisfied that Zopa took appropriate account of the information Mr P provided in his loan application. And he was also satisfied Zopa carried out appropriate checks to satisfy itself that Mr P was able to repay the loan. The investigator concluded therefore that Zopa had acted fairly when it offered Mr P the loan.

Mr P didn't agree with the investigator's conclusions and has asked for an ombudsman's review. He believes that based on his income and employment status at the time of the application he shouldn't have been given the loan. And Mr P doesn't think Zopa carried out enough checks before granting him the loan. Mr P says Zopa should have asked for and thoroughly examined relevant financial documentation before lending him such a substantial amount of money. Also, to have approved the loan without obtaining any evidence of how he intended to use the money is further evidence Zopa acted irresponsibly.

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 broadly agree with the investigator's conclusions and I'll explain why.

The Financial Conduct Authority's consumer credit sourcebook (CONC) sets out the rules about the sorts of things lenders need to consider before lending money to an individual. These rules were updated in November 2018 which was after Mr P's loan was granted. So, I've also considered what CONC said before then, covering the time Mr P's loan was approved and granted in 2017.

In essence, CONC 5 required lenders to carry out proportionate checks in order to make sure that a customer would be able to meet repayments in a sustainable way without incurring financial difficulties.

So, where there's a complaint about irresponsible lending, as Mr P's is suggesting on Zopa's part, I have first to consider whether Zopa made a fair assessment of Mr P's ability to repay the loan. That involves looking to see whether it carried out reasonable and proportionate checks before the loan was granted to Mr P.

If, in my opinion Zopa did carry out reasonable and proportionate checks, the second thing I need to consider is whether Zopa made a fair lending decision, bearing in mind the information it gathered and reviewed from the checks that were carried out.

were Zopa's checks reasonable and proportionate for the loan it granted to Mr P?

CONC 5.2.1 states that a lender must make an assessment based on information from the customer and from a credit reference agency. I'm satisfied this was done by Zopa when it assessed Mr P's suitability for the loan.

Zopa has told us it considered Mr P's income against his expenditure to determine the affordability of the loan. It says it also took into account Mr P was applying for a consolidation loan and his application was assessed using the appropriate model for a loan of that type.

I can see from his application Mr P said he was an electrician. There was no mention his position was as an apprentice. He gave details of his employers for whom he said he worked for over three years. And Mr P said he lived at home with his parents. The information showed Mr P had a gross annual income of £26,784 and a net monthly salary of £1,791.07. On balance, his financial position seemed to be stable.

Zopa was entitled to rely on the information Mr P gave to it. I'm satisfied Zopa did so when making its decision and I do not find it was unreasonable for it to have done so.

Zopa has also pointed to the information on Mr P's credit report which it took account of. The report showed the extent of Mr P's borrowings at the time – including:

- a recent new loan of just under £6,500 which seemed to be repayment of a previous loan;
- a credit card with a credit limit £4,800 but with less than 50% of which had been used up;
- a second credit card with credit limit of £2,000 but only £61 outstanding.
- two current accounts – one which had 78% overdraft usage, whereas the other account wasn't being used.

The copy of credit reference agency report showed no negative markers on Mr P's credit file.

So, although Zopa's checks didn't go as far as Mr P feels they should have, for example to include wage slips and account statements, I'm satisfied that in the circumstances the checks Zopa carried out were reasonable and proportionate and in accordance with CONC 5.2.1.

did Zopa make a fair lending decision?

Zopa established Mr P was in regular employment and had been for over three years. It also established Mr P had a regular source of income from which he could maintain sustainable repayments towards the loan. In addition, Mr P had said the loan was intended for consolidation purposes. In the circumstances it wouldn't have been unreasonable for Zopa to expect Mr P's other debts to be reduced when the loan was used for this purpose. In fact, that might perhaps have improved Mr P's prospect of maintaining the loan repayments in the same way in which he had maintained his other borrowings.

So, like the investigator, I'm not persuaded Zopa's decision to lend to Mr P was irresponsible. I'm satisfied it was a fair decision having regard to the information it reviewed and what it knew about Mr P's circumstances.

Mr P has told us he had a gambling problem at the time he took out the loan with Zopa. I'm sorry to hear about the difficulties this has caused him. This is at the heart of Mr P's case because he feels Zopa didn't get the chance to find out about his problem because it didn't check his bank statements. He feels if Zopa had checked those statements it would have seen this activity.

But Zopa wasn't required to do this and it doesn't appear that Mr P alerted Zopa to the problem in the course his application. Based on the checks Zopa carried out to satisfy itself it was reasonable to lend to Mr P, I do not find Zopa acted unfairly by omitting to go further and check Mr P's bank statements.

But even if Zopa had reviewed Mr P's bank statements and seen there were betting transactions, as indeed there were, it doesn't follow it would have been irresponsible to lend to Mr P. I agree with the investigator that from looking at Mr P's bank statements, he didn't appear to operate his account poorly – he didn't regularly exceed his overdraft limit and the account was often in credit. And that's further borne out by the fact his credit records didn't show any adverse entries.

My final decision

My decision is that I do not uphold this complaint

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 23 April 2021.

Asher Gordon
Ombudsman