

The complaint

Ms M complains that Zopa Bank Limited (Zopa) lent to her irresponsibly.

What happened

Ms M applied online for two loans from Zopa. In April 2016 Zopa gave Ms M a loan of £3,000 over 24 months. In February 2017, Zopa gave her a loan of £6,250 over 36 months as below. Both loans were repaid early.

Loan	Date Taken	Date Repaid	Instalments	Amount	Monthly Repayment	Borrower Fee	Interest
1	25/04/2016	18/01/2018	24	£3,000.00	£147.13	£200	£531.08
2	11/02/2017	05/02/2018	36	£6,520.00	£231.35	£420	£1808.46

Ms M complained that Zopa shouldn't have given her the loans. They couldn't have done sufficient checks – she was in financial difficulty and they weren't affordable.

Zopa said they'd done the necessary credit checks. These included information from credit reference agencies and debt to income ratios based on the information given by Ms M. They said there weren't any signs of problems with Ms M's payment history or repayment ability.

Ms M brought her complaint to us. Our investigator said he thought the checks on the first loan showed it was affordable. The application was for debt consolidation and so it looked like Ms M was reducing her outgoings. But on the second loan, Zopa should've undertaken more checks. It was also for debt consolidation – but she would've then had two loans running for that purpose. So – he wondered why that was, especially as it was only a short time after the first loan. And – Ms M had two credit cards with borrowing of £4,600. The combined Zopa loan repayments of £378 per month were more than 25% of her income. So, Zopa should've asked more questions for the second loan. He said interest and charges on the second loan should be refunded, plus 8% per annum simple on the monthly repayments made.

Zopa disagreed and asked that Ms M's complaint be looked at by an ombudsman.

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.

Although Ms M did repay both loans early – and made the monthly repayments, she says that Zopa couldn't have done sufficient credit checks when they agreed the loans. She says that if they had, they'd have seen they weren't affordable. She had other debts also.

One issue here is that Zopa haven't been able to provide any detail of the credit analysis they did at the time of the loans. So – I have had to make a decision based on limited information and using a judgement of what might have happened, based on a balance of probabilities.

Looking at loan number 1. Zopa told Ms M – and us – that she passed the credit checks they would've done at the time. But we haven't seen these. We saw that Zopa recorded she had disposable income of £839 per month and the loan was said to be for debt consolidation and marked "approved". Ms M showed us evidence of her income – which was then £1264 per month net of tax. Based on repayments of £147 per month and the limited information we've seen, it's likely that the loan was affordable. So – there's no substantive reason to say Zopa didn't do sufficient checks for the first loan.

Looking at loan number 2. Again, it was said to be for debt consolidation – but it was less than a year after Ms M's first loan – which was also for debt consolidation. Zopa were being asked to lend a total of £9,520 for debt consolidation. So – Zopa could reasonably have asked more questions about Ms M's circumstances – but they didn't. Zopa showed us a copy of the credit searches made at the time. This showed that in 2017, she had a credit card with a limit of £3,800 (debt £3,411) and another card with a limit of £1,200 (debt £1,172). She also had an overdraft of £450. This, added to her other loan from Zopa (balance £2,105 – some repayments had been made) – meant Ms M had unsecured borrowing of almost £14,000. When looked at against her salary – which was then £1,277 per month – it's clear that Zopa should've asked more questions about Ms M's circumstances, such as her income and expenditure and her other debts. We also couldn't see if – given that both loans were for debt consolidation – that Zopa had asked which what the other debts were. Nor did they follow through with Ms M to see that they were repaid by the loans.

Putting things right

So – based on what I've seen, I don't think Zopa have evidenced that they made the second loan responsibly. And Ms M should therefore be put back in the position she was in before the second loan was agreed. It's not fair to Zopa to ask them to write off the loan, or any part of it – as Ms M has had the use of the money. But it's appropriate to ask Zopa to:

- Refund all interest and charges (including the borrower fee) made on loan number 2 (noting that there may have been a refund of interest when the loan was repaid).
- Calculate and pay 8% per annum simple on the payments made by Ms M to loan number 2 from when the payments were made up to when the loan was repaid.

(Continued)

My final decision

I uphold this complaint.

Zopa Bank Limited must:

- Refund all interest and charges (including the borrower fee) made on loan number 2 (noting that there may have been a refund of interest when the loan was repaid).
- Calculate and pay 8% per annum simple on the payments made by Ms M to loan number 2 from when the payments were made up to when the loan was repaid.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 3 June 2021.

Martin Lord
Ombudsman