

## **The complaint**

Mr D complains that Zopa Limited (“Zopa”) unfairly and irresponsibly arranged an unaffordable loan for him.

Mr D is represented in his complaint by a third party. But for ease I will refer to any submissions made by the third party as if they had been made by Mr D himself.

## **What happened**

In August 2018 Zopa arranged a loan for Mr D for £5,040. The sum of £5,040, everything else being equal, was repayable at £155.81 a month for 48 months.

Mr D received a net sum of £4,490. This was because a borrower fee of £540 was retained and £10 deducted for the faster payment of the funds into Mr D’s current account.

Mr D complained to Zopa that it shouldn’t have arranged the loan for him. He says Zopa couldn’t have carried out sufficient checks because had it done so it would have realised that he couldn’t afford the monthly repayments due to his existing commitments and his financial position more generally.

Zopa said it had done the necessary checks. These included information from credit reference agencies and debt to income ratios based on the information given by Mr D. It said there weren’t any signs of problems with Mr D’s payment history or repayment ability.

Mr D brought his complaint to us. Our investigator said she thought Zopa should have undertaken more checks. And had it done so it would have concluded that the loan was unaffordable, and it wouldn’t have arranged it. She then went on to outline what Zopa should do to fairly and reasonably compensate Mr D.

Zopa disagreed and so Mr D’s complaint was passed to me for review and decision.

I issued a provisional decision on this case in July 2021. In summary I said:

*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 can confirm that I’ve come to the same overall conclusion as the investigator and for broadly the same reasons.*

*First, I would like to say that I've read and considered the whole file, but I'll concentrate my comments on what I think is relevant. If I don't comment on any specific point, it's not because I've failed to take it on board and think about it but because I don't think I need to comment on it in order to reach what I think is the right outcome.*

*Secondly, I would also like to point out that where the evidence is incomplete, inconclusive or contradictory, I make my decision on the balance of probabilities - that is, what I consider is most likely to have happened given the evidence that is available and the wider surrounding circumstances.*

*As noted by the investigator when considering a complaint of this type, what I need to consider (amongst other things) is:*

- *Did Zopa complete reasonable and proportionate checks to satisfy itself that Mr D would be able to meet his obligations under the loan in a sustainable way?*
  - *If so, did it fairly conclude that Mr D could sustainably make the repayments?*
  - *If not, would such checks have shown that Mr D would have been able to do so?*

*The relevant rules say that Zopa needed to carry out checks to ensure any loan it arranged was affordable and sustainable for Mr D. These checks should have been 'borrower-focussed'. This means Zopa needed to think about whether Mr D could afford the borrowing, not just how statistically likely he was to repay it back.*

*The thoroughness of the checks Zopa carried out needed to be proportionate to the situation. In deciding what was proportionate Zopa ought to have considered the following (but not limited to):*

- *The type of credit*
- *The size and duration of the credit*
- *The overall cost of the borrowing and the size of the repayments*
- *Mr D's credit history, including any indications that he was experiencing or had experienced financial difficulties.*

*Zopa has provided us a copy of the checks it made at the time.*

*The credit check Zopa undertook showed that:*

- *Mr D had three loans (£15,400), three credit cards (£7,000), one mail order account (£100) and an overdrawn current account (£1,500).*
- *This combined unsecured debt of £24,000 was costing Mr D £812 a month in repayments.*
- *Two of the loans (£13,300) and one of the credit cards (£1,400) had only been granted to Mr D in the last six months.*
- *Mr D had a mortgage with an outstanding balance of £151,600 costing £500 a month in repayments.*

*The affordability calculation undertaken by Zopa showed that:*

- *Mr D had declared that he had a net monthly income of £2,208*
- *Mr D's unsecured debt to income ratio was 84%*
- *His disposable income (after its loan) would be £740 (£2,208 - £812 - £500 - £156)*

*Now given an unsecured debt to income ratio of 84%, £14,700 of debt had only just been taken on by Mr D in the last six months and that 60% of Mr D's existing net monthly income was required to support his existing debt commitments (£1,312/£2,208) I find that Zopa could and should have asked more questions about Mr D's circumstances, such as his other expenditure and the reason for the very recent increase in his indebtedness.*

*And had it done so, I'm further satisfied that Zopa would have concluded that the loan it was arranging for Mr D wasn't affordable.*

I then went on to explain what Zopa should do to fairly and reasonably compensate Mr D.

Mr D responded to say that he accepted my provisional decision.

Zopa responded to say that it didn't agree with my provisional decision. However, it said it had nothing further to add and it would abide by any final decision I issued.

### **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.

Given that Mr D responded to say he accepted my provisional decision and Zopa said it had nothing further to add I see no reason to depart from my provisional findings and I now confirm them as final.

### **My final decision**

My final decision is that I uphold this complaint and Zopa Limited must:

- Remove all interest and charges from the loan, so that Mr D is responsible for repaying just the £4,490 capital he received.
- Deduct from the sum of £4,490 the repayments Mr D has made.
- Agree with Mr D an affordable repayment plan, if after the above deduction a debit balance remains.
- Refund to Mr D, if after the above deduction a credit balance remains, the credit balance.
- Pay Mr D, if after the above deduction a credit balance remains, interest on each and every payment made by Mr D that caused his loan balance to go into credit, or further into credit, at 8% simple a year from the date each individual payment was made to the date of settlement.

- Remove any negative information recorded by it with one or more credit reference agencies.

\*HM Revenue & Customs requires Zopa Limited to take off tax from this interest. Zopa Limited must give Mr D a certificate showing how much tax it's taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 31 August 2021.

Peter Cook  
**Ombudsman**