DRN-3121456

The complaint

Mr P says Zopa Limited arranged a loan for him irresponsibly.

What happened

Mr P took out a 36-month loan through Zopa for £1,000 in June 2019. The monthly repayment was £36.99 and the total repayable was £1,331.64.

Mr P says the loan caused him financial hardship and should not have been given.

Our investigator didn't think Mr P's complaint should be upheld. He said Zopa's checks were proportionate and it made a fair lending decision based on the information it gathered.

Mr P disagreed saying we have upheld another of his lending complaints from around the same time so this must be wrong. His finances were out of control at the time.

As an agreement wasn't reached the complaint was passed to me to reach a 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.

We've set out our general approach to complaints about unaffordable/irresponsible lending - including the key rules, guidance and good industry practice - on our website. And I've referred to this when deciding Mr P's complaint.

Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Mr P's complaint.

These are:

- Did Zopa complete reasonable and proportionate checks to satisfy itself that Mr P would be able to meet his obligations under the P2P (peer-to-peer) agreement in a sustainable way? If so, did it make a fair decision? If not, would those checks have shown that Mr P would've been able to do so?

- Did Zopa act unfairly or unreasonably in some other way?

If I determine that Zopa didn't act fairly and reasonably in its dealings with Mr P and that he has lost out as a result, I will go on to consider what is fair compensation.

Did Zopa complete reasonable and proportionate checks to satisfy itself that Mr P would be able to meet his obligations under the P2P agreement in a sustainable way?

The rules, regulations and good industry practice in place when Zopa brought about this P2P agreement with Mr P required it to carry out a proportionate assessment of whether he could afford to make his repayments. This assessment is sometimes referred to as an affordability assessment or affordability check.

The checks had to be "borrower" focused – so Zopa had to think about whether repaying the loan sustainably would cause difficulties or adverse consequences for Mr P. In practice this meant that Zopa had to ensure that making the payments to these loans wouldn't cause Mr P undue difficulty or significant adverse consequences. In other words, it wasn't enough for Zopa to simply think about the likelihood of Mr P making payments, it had to consider the impact of loan repayments on Mr P.

Checks also had to be proportionate to the specific circumstances of the application. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a customer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income); and
- the *longer* the term of the loan (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make payments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances.

I've carefully thought about all of the relevant factors in this case.

Were Zopa's checks reasonable and proportionate?

Zopa has said that it completed an income and expenditure assessment with Mr P before arranging this loan. It checked his declared income using an income verification tool. It also carried out credit check to understand Mr P's existing credit commitments and credit history. It asked about the purpose of the loan which Mr P said was home improvements. From these checks combined Zopa concluded the loan would be sustainably affordable for Mr P.

Given this was Mr P's first application through Zopa, the value of the loan, and the low proportion of his monthly income needed to make the repayments, I think the checks were reasonable and proportionate. And based on the information it gathered I think Zopa made a fair lending decision. I'll explain why.

Zopa's checks showed Mr P's monthly net income was around £1900, his rent/mortgage was £300 a month and he was currently spending around £237.55 on his existing credit commitments, assuming he made the minimum payment on his credit card. I note Zopa used a higher figure of £409 as part of its assessment based, it seems, on adjustments made by its underwriters.

His credit file showed he was up-to-date with all his repayments and there was no adverse data – such delinquent or defaulted accounts. Whilst he had taken out payday loans previously, the credit check showed three such settled loans and in early 2017, so I don't think they needed to concern Zopa.

So, in the round, I think it was reasonable for Zopa to conclude Mr P would be able to sustainably afford the £36.99 monthly repayment.

I can see from the bank statements Mr P provided that he was spending a significant amount of his income on gambling transactions. He points to this as evidence that his financial situation was out of control.

But given the terms of this loan, and what its initial checks showed, I don't think it would have been proportionate for Zopa to have carried out the level of financial review that would have been needed for it to become aware of this. I would also point out that what Zopa would see from its credit check might differ from what Mr P would see on his credit file – this can be due to timing differences or the fact not all lenders reports to all the credit reference agencies. I can only fairly expect Zopa to react to the information in the credit check it completed.

Overall, from the checks it carried out, which were reasonable and proportionate, I think it made a fair lending decision.

Mr P also challenged why this complaint would not be upheld when we have upheld another taken out at a similar time. I can only comment here on the merits of this complaint: each decision is reached based on the individual circumstances of the case. But I note the other loan he references was taken out some months later in November 2019 and it seems his overall indebtedness and monthly credit commitments had increased by then.

I have found no evidence Zopa acted unfairly or unreasonably in some other way.

My final decision

It follows I am not upholding Mr P's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 21 December 2021.

Rebecca Connelley
Ombudsman