DRN-3845210

The complaint

Mr B says Zopa Bank Limited irresponsibly lent to him.

What happened

Zopa operates the lending platform which gave Mr B a 36-month loan for £4,000 on 4 January 2022. The monthly repayments were £175.47 and the total repayable was £6,316.97. Mr B repaid the loan in full on 3 February 2022.

Mr B says at no point did Zopa check the affordability of the loan for him, he had other card and loan debts, plus a mortgage. He was only able to repay this loan due to informal borrowing from family, and he resorted to gambling to try to clear his debts. This impacted his relationship and his mental health. He wants the interest he paid of £63.99 to be refunded, plus compensation.

Our investigator did not uphold the complaint. He said Zopa's checks were not proportionate but it did not seem better checks would have shown Mr B was unlikely to be able to sustainably repay the loan.

Mr B disagreed and asked for an ombudsman's review. He said as the main earner he was struggling to cover all bills and manage his addiction to excess spending, including gambling.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The rules and regulations when Zopa arranged the loan for Mr B required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So Zopa had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr B. In other words, it wasn't enough for Zopa to simply think about the likelihood of it getting its money back, it had to consider the impact of the repayments on Mr B. Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up 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 and cost of credit they have applied for. 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 repayments to credit from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the longer the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments 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 kept all of this in mind when thinking about whether Zopa did what it needed to before agreeing to lend to Mr B. So to reach my conclusion I have considered the following questions:

- did Zopa complete reasonable and proportionate checks when assessing Mr B's loan application to satisfy itself that he would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did Zopa make a fair lending decision?
- did Zopa act unfairly or unreasonably in some other way?

I can see Zopa asked for some information from Mr B before it approved the loan. It asked for details of his income and checked this with a third party. It also checked his credit file to understand his credit history and existing credit commitments. It asked about the purpose of the loan, which was debt consolidation. From these checks combined Zopa concluded Mr B had enough monthly disposable income to afford to repay the loan.

I don't think these checks were proportionate in the circumstances of this case. Mr B was agreeing to repay a loan over a three-year period, and Zopa knew from its credit check that Mr B had taken out two other loans recently and had unsecured debt of around £20,000. So he had to spend a not insignificant portion of his salary each month to service this debt, as well as maintaining monthly mortgage payments of £769. So after its initial checks I think Zopa ought to have carried out a fuller financial review before deciding to lend.

I have looked at Mr B's bank statements from the three months prior to his application. I am not saying Zopa had to do this but it's one way it could have better understood Mr B's finances. They are for Mr B's personal account but he has confirmed the high-value transfers out were to his joint account to cover his mortgage and bills. So I am satisfied they fairly represent his financial position. There are a lot of cash withdrawals so I cannot know the nature of a significant part of Mr B's expenditure, but overall I don't think the statements conclusively show the loan was most likely to not be sustainably affordable for him. I'll explain why.

He used his overdraft facility but just occasionally, not persistently, and only really over the Christmas period. There were none of the other typical signs of financial stress such as payday loans or returned direct debit payments. There are some gambling transactions but they are infrequent until December 2021 when they did increase, but this was following a high-value win and so at that stage I don't think that could be taken as a conclusive indicator of financial instability. In addition Mr B had told Zopa the loan was for debt consolidation.

Overall, I don't think Zopa ought to have made a different lending decision had it completed better checks. To be clear, I am not saying Mr B wasn't struggling and relying on family as he describes, but I think the level of financial review that would have been needed to discover that would not have been proportionate for this loan.

It follows I don't think Zopa was wrong to arrange the loan for Mr B. And I haven't seen any evidence that Zopa acted unfairly towards Mr B in some other way.

My final decision

I am not upholding Mr B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 5 January 2023.

Rebecca Connelley
Ombudsman