

The complaint

Miss C complains that Zopa Bank Limited irresponsibly gave her a peer-to-peer loan she couldn't afford.

What happened

In April 2022, Miss C applied for a peer-to-peer loan through Zopa for £20,000. She was required to pay 60 monthly repayments of £486.48. In June 2022, Miss C complained to Zopa to say she shouldn't have been given the loan. She said that the loan was unaffordable and if Zopa had completed appropriate affordability checks it would have seen this too.

Zopa didn't think it had acted unfairly. It said that it had completed appropriate checks before approving the loan which showed that it would be affordable for Miss C.

Our investigator didn't recommend the complaint be upheld. She considered that Zopa should have completed more thorough affordability checks, but even if it had it wouldn't have discovered any affordability concerns.

Miss C didn't agree, so the complaint has been passed to me for a final 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.

The rules and guidance for lenders is set out in the Consumer Credit Sourcebook (known as CONC) within the regulator's handbook of rules and guidance. I've had these rules and guidance in mind when deciding whether Zopa acted fairly and reasonably.

Zopa were required to ensure that the borrowing was affordable and sustainable for Miss C. There isn't a set list of checks that it had to complete, but it was required to ensure that any checks it complete were proportionate. What is considered proportionate will vary as there isn't a one-size-fits-all approach. In deciding what is proportionate, Zopa needed to consider things such as (but not limited to): The amount borrowed, the size of the regular payments, the cost of the credit, the term, the total repayable and the consumer's specific circumstances.

Miss C declared a monthly income of £3,800 on the application form and Zopa says it verified this by using data obtained from a credit reference agency. It also completed a credit check which showed that Miss C didn't have any current or previous history of difficulty in repaying credit. However, it did show that she had a number of existing unsecured credit commitments totalling around £21,100. Further, Miss C declared she was renting and paying £1,000 per month for that and that the purpose of the loan was for debt consolidation.

Given that Miss C told Zopa that the purpose of the loan was for debt consolidation, I think it was reasonably entitled to assume that is what she would use the loan for. This means Zopa were entitled to believe that its loan wasn't going to significantly increase Miss C's

unsecured debt and it appeared her existing monthly repayments combined on those debts were much higher than what she would be paying back to Zopa. So, a starting point here is that the consolidation loan was likely to place Miss C in a better position with her debt repayments than she was currently in.

However, having said this, the loan was sizeable, with large monthly repayments, payable over a five year term. While I note Zopa used credit reference agency data to assist in verifying Miss C's declared income, I think it would still have been proportionate for it to have asked her more about her other essential committed expenditure.

I can't be sure what Miss C would have declared, but in the absence of Zopa having asked, I've reviewed copies of her bank statements to determine what she would most likely have said. To be clear, I don't think Zopa needed to request bank statements from Miss C, but I think the information they contain gives me a good indication of what she would likely have declared, if asked. Miss C has also provided us with an income and expenditure document she completed for a debt charity in November 2022. She says her financial circumstances hadn't changed between when she took out the Zopa loan and filling in that form.

Having reviewed Miss C's bank statements, these show her committed essential monthly expenditure to be significantly lower than what she had declared on the form for the debt charity. However, her bank statements suggest she holds another account she hasn't told us about, so it's possible her expenditure was higher than I can see.

Taking into account bills, food, transport costs and household essentials that she declared to the debt charity, it seems that Miss C would have had around £700 to use towards her credit commitments and other emergency spending. As the Zopa loan was for debt consolidation, it would have been reasonable for Zopa to have concluded that her only credit commitment would be the monthly payment to Zopa and perhaps another smaller payment to one or two other creditors. This would have still left Miss C with enough disposable income to meet her essential expenditure with some left over for unexpected costs. So, I don't think Zopa made an unfair lending decision.

Even if I thought Zopa should have questioned things further at this stage and requested further evidence, I don't think that would have made a difference to the lending decision. I say this because the bank statements show that although Miss C's rent was £1,000 per month, it appears somebody else was paying this for her each month, or at least contributing a similar figure towards her bills. I note the credit checks demonstrate she was living with someone else at the time. So, it seems likely (given the payments into her account) that some or all of the living costs that were identified when I calculated her expenditure were shared with someone else. This means she would have had even more disposable income available to her.

Lastly, Miss C says that when she applied for the loan she was suffering from poor mental health and that she had no understanding of the implications of taking out the loan. I'm sorry to hear Miss C wasn't well, however, I've not seen anything to persuade me that Zopa either knew about her health or ought to have known. If she is still struggling with her health and her ability to repay the loan she should discuss this with Zopa to see what it can do to support her and I remind Zopa of its obligations to treat her fairly in relation to her difficulties.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 10 May 2023.

Tero Hiltunen
Ombudsman