

The complaint

Ms F complained that Zopa Bank Limited (“Zopa”) irresponsibly granted her a personal loan in April 2022 that she couldn’t afford to repay.

What happened

In April 2022, Ms F took out a loan of £16,000 over a term of 48 months, with a monthly repayment of £434.65.

In summary, Ms F told us that she had other loans and credit card debts when she took out the loan detailed above, and that she is now having to use her credit cards to make ends meet, which is affecting her mental health. Ms F would like the loan to be written off, and interest and charges refunded.

Ms F complained to Zopa about this in March 2023. Zopa said it had carried out appropriate checks before granting the loan, and told Ms F that it did not uphold her complaint. Ms F then brought her complaint to this service. Our investigator looked into it and thought it should be upheld. Zopa didn’t agree, and asked for it to be reviewed 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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website, and I’ve taken this into account here.

I’ve decided to uphold Ms F’s complaint. I’ll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn’t a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering matters such as the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer’s circumstances. So I’ve considered whether Zopa completed reasonable and proportionate checks to satisfy itself that Ms F would be able to make the repayments on the loan account in a sustainable way.

Zopa sent in copies of Ms F’s loan application and agreement and its assessment of her circumstances, including information from her credit history. Ms F has provided copies of her bank statements for the three months preceding the loan application.

Zopa said in its final response letter that, when assessing any loan application, its underwriting team considers several factors including (but not limited to) credit profile, credit history and affordability. Decisions are made based on information given in the application itself and obtained from various Credit Reference Agencies (CRA). It said that in Ms F’s case, all minimum lending requirements were met.

Looking at the information Zopa provided about its assessment of Ms F's circumstances, it verified Ms F's stated income of £27,400, and calculated that this equated to a monthly income of £1,872.42. It calculated the total monthly outlay on her existing credit commitments (including her mortgage) as £1,155, leaving a disposable income of £717.42. Zopa also completed a credit check and found no adverse payment history on Ms F's file. As far as I can see it relied on the information from the application and the CRAs.

However, I don't consider that Zopa carried out reasonable and proportionate checks. I cannot see that the calculation of disposable income allowed for an estimate of essential living expenses, so it's difficult to see Zopa's expectation of Ms F's actual disposable income. Zopa's checks showed that, as well as her mortgage, Ms F had unsecured debt totalling nearly £21,000, and her credit history showed that she had taken out two credit cards in the preceding three months, and a third a few months before that.

I can see that the loan application showed the purpose of the loan as debt consolidation, and I accept that Zopa would reasonably expect some of Ms F's other credit commitments to be repaid. But nonetheless this would still leave Ms F with a high level of unsecured credit relative to her income. So I think Zopa's assessment of Ms F's circumstances should have prompted more detailed enquiries about her income and expenditure, especially as the loan was for a considerable amount and the repayments quite substantial. And I would've expected Zopa to check what credit commitments Ms F was intending to settle, to allow it to assess whether the proposed loan repayments were sustainable.

Ms F has provided us with bank statements as evidence of her financial circumstances when she applied for the loan. I can see from these that her monthly income was in the region of £1,760 – less than that calculated by Zopa - and I can see that Ms F's current account balance was generally reduced to a few pounds just before her salary was credited each month, even with some extra money credited from what looks like her savings. Looking at regular expenditure, such as council tax and insurance for example, it seems to me that these items together with household costs such as groceries would account for most if not all of Ms F's income after payment of her credit commitments.

I've kept in mind that, as the loan purpose was stated to be debt consolidation, repayments on the new loan could reasonably replace some of Ms F's outgoings on existing credit commitments. But even taking this into account, I'm not satisfied Ms F had enough disposable income to sustainably cover the new loan repayments – after allowing for credit commitments and essential living expenses, it seems to me that she would have had little or no capacity to cover any unexpected costs.

Zopa has commented that Ms F has not raised concerns about financial difficulties, and that repayments have been made on time. However, this decision relates to the granting of the loan, and in any case I do not have details of how Ms F is currently managing her finances – I note that in her complaint she mentions using credit cards to make ends meet.

In summary, I'm not satisfied that Zopa carried out reasonable and proportionate checks before granting this loan – it seems to me that Ms F's circumstances ought reasonably to have prompted a more detailed review of her income and outgoings.

If Zopa had done such a review, I think I would've shown that the monthly repayments on the new loan were unlikely to be sustainable. I say this because, taking account of Ms F's credit commitments (allowing for some to be replaced by the new loan), and her essential living expenses, and the pattern of transactions on her current account (as I noted Ms F's balance was frequently very low just before being paid), I'm not satisfied that she was left with enough disposable income to manage those repayments sustainably. So I don't think Zopa

acted fairly in granting this loan to Ms F. I think Ms F has lost out as a result and therefore I uphold her complaint.

Putting things right

I don't think Zopa should have provided the loan to Ms F, so I don't think it's fair for it to charge any interest or charges on that loan. However, Ms F still needs to repay the capital amount she borrowed. Therefore, Zopa should:

- remove all interest, fees and charges applied to this loan from the outset. The payments Ms F has made should be deducted from the new starting balance – the £16,000.00 originally lent. If once all adjustments have been made this shows that Ms F has made overpayments, these overpayments should be refunded to Ms F, together with interest at 8% simple a year* from the date they were made to the date of settlement.
- if, once all adjustments have been made this shows that Ms F still has an outstanding amount to repay, Zopa should contact Ms F to arrange a suitable repayment plan. Ms F is encouraged to get in contact with and cooperate with Zopa to reach a suitable agreement for this.
- if no outstanding balance remains after all adjustments have been made then Zopa should remove any adverse information (if any) it recorded on Ms F's credit file.

*HM Revenue & Customs requires Zopa to deduct tax from any award of interest. It must give Ms F a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

For the reasons given above I have decided to uphold Ms F's complaint. Zopa Bank Limited should compensate Ms F as described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms F to accept or reject my decision before 19 October 2023.

Jan Ferrari
Ombudsman