DRN-4279511

The complaint

Mr A complains that the loan he had from Zopa Bank Limited was unaffordable to him.

What happened

Mr A was approved for one loan with Zopa in May 2021 as follows:

Loan	Date	Amount	Term	Repayment	Due
1	27 May 2021	£11,000	48m	£321.41	27 May 2025

Mr A says that, as a result of this lending, his already poor financial situation was worsened. He says he took out the loan to repay other credit commitments but ended up further in debt.

Zopa says it considered Mr A's credit profile and affordability before approving Mr A's application. It says all its minimum lending requirements were met so could not agree that its decision was irresponsible.

Our investigator recommended the complaint should be upheld. He said he did not consider Zopa had carried out proportionate checks and that, had it done so, it was likely to have found that his income was much less than he'd declared. He was satisfied, therefore, that the loan was unaffordable to Mr A and that he should not be charged interest on it.

Zopa responded to say, in summary, that it did not include the additional income Mr A declared in his application and that his income was verified with the credit bureau. It says there was nothing in the available information that indicated Mr A was struggling financially or that it needed to do additional checks. Zopa adds that an £11,000 loan is not significant compared with an income of £30,000 and that Mr A's payments have been up to date, including an additional lump sum repayment.

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.

I need to take into account the relevant rules, guidance and good industry practice, as outlined on our website.

Bearing this in mind, in coming to a decision on Mr A's case, I have considered the following questions:

- Did Zopa complete reasonable and proportionate checks when assessing Mr A'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?

When Mr A applied for the loan, I've seen evidence to show Zopa asked about his financial circumstances, checked his credit file and verified his income. However, I'm not satisfied that these checks went far enough because:

- The loan was for a period of 48 months and Zopa needed to ensure the repayments were sustainable over that period;
- Mr A had declared he was renting, but I can't see Zopa asked him about his monthly expenditure on this;
- Zopa calculated Mr A's monthly disposable income to be £1,319.86, but this only included expenditure on existing credit commitments;
- Mr A's existing credit commitments were over one-third of his income – this rose to 50% of his income with the new loan, although I accept Mr A said he would use the loan for consolidation purposes;
- Given the cost of the Zopa loan, it did not make sense financially for Mr A to repay existing outstanding credit;

As Zopa's affordability calculations included very limited information on expenditure, and Mr A's potential credit commitments were as much as 50% of his income, I find proportionate checks should have included Zopa getting a better understanding of Mr A's financial situation.

I've looked at Mr A's bank statements from the relevant period of time, as a reasonable proxy for what proportionate checks may have shown. These show:

- Mr A's income from his self-employed work was variable and averaged around £1,600 in the three months prior to the lending;
- Mr A confirmed that his partner paid the rent;
- Regular monthly expenditure of £536 including spend on utilities, housing, phone, car tax, insurance, television licence and a regular payment to a family member;
- Although there was limited spend on food, I can see Mr A spent about £100 on petrol per month;
- Including Mr A's existing credit commitments of £675, this left a disposable income of less than £300, making the new repayment unaffordable to him;

I have considered what Zopa said about Mr A using the money to consolidate existing loans, but even if I assume he repaid the two largest loans it means:

- Mr A was still committed to paying 37% of his income to credit repayments;

- Although he would save £80 per month for the first year, Mr A would then need to pay £321.41 for a further three years, instead of £220 for a further two years.

So, taking into account everything I've seen, I find that the new lending was likely to be unsustainable for Mr A and Zopa was irresponsible to have approved the loan application, although I can't see it acted unfairly or unreasonably in any other way.

My final decision

My decision is that I uphold this complaint. Zopa Bank Limited should:

- Add up the total amount of money Mr A received as a result of having been given the loan. The repayments Mr A made should be deducted from this amount.
    - If this results in Mr A having paid more than he received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement)*;
    - If any capital balance remains outstanding, then Zopa should attempt to arrange an affordable and suitable payment plan with Mr A;
- Remove any negative information recorded on Mr A's credit file relating to this loan once any remaining capital has been repaid.

*HM Revenue & Customs requires Zopa to deduct tax from this interest. Zopa should give Mr A a certificate showing how much tax it's deducted if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 3 November 2023.

Amanda Williams
Ombudsman