

The complaint

Mr H complains that Zopa Bank Limited irresponsibly lent to him.

What happened

Zopa gave Mr H access to a loan in August 2018. The loan was for £18,000, Mr H also had to pay £110 in fees. The loan was due to be repaid in 60 monthly instalments of £431.21. Mr H struggled to keep up with his repayments and defaulted on the loan. Mr H worked with Zopa, and the loan has now been settled.

When Mr H complained to Zopa, it didn't uphold his complaint, so he referred it to the Financial Ombudsman Service where one of our investigators looked at the complaint and thought Zopa should have taken its checks further and had it done so, it would have found it shouldn't have lent. Our investigator thought the complaint should be upheld.

Zopa disagreed, it said its checks went far enough and asked for an ombudsman's decision on the case.

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.

Before granting Mr H access to credit, Zopa needed to take proportionate steps to understand whether he could repay without borrowing further or suffering significant adverse consequences.

Zopa needed to gather enough information for it to be able to make an informed decision on the lending. Although the relevant guidance and rules themselves didn't set out compulsory checks, they did list a number of things a lender could take into account before agreeing to lend. The key thing was that any checks needed to be proportionate and had to take into account a number of different things, including things such as how much was being lent and when what was being borrowed was due to be repaid. A business should also take into account and react appropriately to what it knew about the consumer at the time it made its lending decision.

From what I can see Zopa verified Mr H's income by requesting his payslips, Mr H's net income in the month before the loan, based on his payslip, was around £1,748. Zopa said it didn't ask Mr H about his living costs but used Office of National Statistics (ONS) figures which were around £620.

The results of Zopa searching Mr H's credit file were that Mr H was up to date on his active accounts. Mr H had four other loans and was repaying at least four credit card accounts. All payments were showing as up to date. Zopa has confirmed Mr H had a previous loan with it which he repaid in 2017 without any concerns.

When Mr H applied for the loan, his stated purpose of the loan was to consolidate, while it is true that had Mr H consolidated, his monthly credit commitments would have reduced

significantly. I'm also mindful that it wasn't clear to Zopa which credit Mr H was consolidating and how it affected his finances on a monthly basis. Mr H could have consolidated a significant amount of his debt or little of it.

From what I can see, Mr H had total outstanding credit of over £22,000 – the loan amount wasn't sufficient to consolidate all his debts. On a monthly basis and without this Zopa loan, Mr H was paying over £900 towards credit commitments, taking into account ONS living costs of £620 and the repayment of this loan of £431.21, it appeared Mr H wasn't left with disposable income to repay this loan.

The repayment of this loan was around 25% of Mr H's verified income, that percentage of his income over a five-year term was likely to put some strain on his finances and it would have been reasonable for Zopa to satisfy itself Mr H could afford to repay the loan repayments when they fell due over the term.

So, while Zopa verified his income, it would have been reasonable at the very least in these circumstances to check and verify Mr H's living expenses as well. I think given the size of the monthly repayment compared to Mr H's income, it wasn't reasonable for Zopa to rely on data from ONS. I'm also mindful that Zopa didn't satisfy itself of what Mr H's credit commitments might be following in the loan.

In the absence of evidence of further checks from Zopa, I've relied on Mr H's bank statements from around the time and I can see from Mr H's bank statements that in reality he wasn't in a position to afford the loan repayment as he was struggling to manage his money. Mr H was spending significant sums regularly on gambling transactions, for example in the month before the loan was agreed, Mr H had over one hundred gambling transactions which totalled more than £2,000. This wasn't a sustainable position and I think that was borne out when Mr H struggled to repay the loan.

I think had Zopa carried out further checks like I think it should have, it's likely to have found Mr H wasn't in a position to afford this loan and wouldn't have lent. Also, without consolidating his other debts, Mr H wasn't left with any disposable income to repay the loan over its term. Zopa has given Mr H access to a loan when I think it shouldn't have and it needs to put things right.

Putting things right

- Refund all interest and charges Mr H paid on the loan.
- Pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†.
- Remove any negative information about the loan from Mr H's credit file.

† HM Revenue & Customs requires Zopa to take off tax from this interest. Zopa must give Mr H a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons given above, I uphold Mr H's complaint and direct Zopa Bank Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 22 April 2024.

Oyetola Oduola

Ombudsman