

The complaint

Mr H complains that Zopa Bank Limited trading as Zopa was irresponsible to offer him a credit card and increase his limit later on.

What happened

Zopa opened a credit card account for Mr H in August 2021. This type of credit was an open-ended or running account facility and the credit limit was £300. Zopa increased Mr H's limit to £600 in April 2022.

Mr H said that Zopa was irresponsible to lend to him because he was having difficulty with his finances and it should have seen this from its checks. He missed repayments in 2022 and the account is now in default.

Zopa didn't uphold Mr H's complaint. It said it used information from Mr H's application and information from his credit file to check that the credit would be affordable for him before entering into the agreement. Zopa said Mr H had some historical negative markers on his credit file but his current debts were being well managed. Zopa also said that Mr H had met his repayments making more than the minimum required and had only taken out one cash advance before it increased his credit limit in April 2022.

Mr H referred his complaint to us. Our investigator didn't recommend that the complaint be upheld. They found that Zopa didn't act unfairly or unreasonably by approving the credit agreement or increasing the limit. Mr H didn't agree with this recommendation and asked for his complaint to come to an ombudsman for review and it came to me.

I issued a provisional decision on 14 September 2023 explaining why I wasn't planning to uphold Mr H's complaint. I allowed some time for comments or new information from either party. Neither Zopa nor Mr H have provided any comments on my provisional conclusions or new information for me to consider.

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.

Having reconsidered everything and having no new information to review, I see no reason to depart from my provisional conclusions. I'll set out my reasons again for not upholding Mr H's complaint in this final decision.

As before, I've had regard to the regulator's rules and guidance on responsible lending (set out in its consumer credit handbook – CONC) which lenders, such as Zopa, need to abide by. Zopa will be aware of these, and our approach to this type of lending is set out on our website, so I won't refer to the regulations in detail here but will summarise and refer to them where appropriate.

Before entering into the credit agreement, Zopa needed to check that Mr H could afford to

meet his repayments out of his usual means, without having to borrow further and without experiencing financial difficulty or other adverse consequences. The checks needed to be proportionate to the nature of the credit (the amount borrowed, for example) and to Mr H's circumstances. The regulations stated that a lender should not use the assumption of the amount necessary to make only the minimum payment each month and should consider the customer's ability to repay the maximum amount of credit available under the agreement within a reasonable period of time.

I've considered whether Zopa carried out proportionate checks before opening the account for Mr H in 2021. Zopa said it used information from Mr H's application and information from his credit file to check that the credit would be affordable for him before entering into the agreement.

Mr H told Zopa when he applied for the credit card that he was employed full-time with a salary of £22,000 and his housing costs came to £400. Zopa said it verified Mr H's income and I can see from the bank statements he provided to us that he was paid about £1,500 a month at that time. The credit file information Zopa saw showed that Mr H had several credit accounts. These were an overdraft of £118, another credit card with a balance of £419 and two mail order accounts. There was no adverse information recorded about these accounts. Mr H had defaulted on several accounts in 2019 but all except two had been settled. One of the two showed a balance of £709 and regular monthly payments of £50 and the other had a balance of £81.

I think it was reasonable of Zopa to consider that Mr H would be able to repay this £300 credit without difficulty within a reasonable period of time, given the likely repayments and what Zopa knew about his means and his existing debts. I haven't seen anything in the information it relied on that should have prompted Zopa to carry out further checks before lending to him.

Mr H said that he'd opened several accounts within the three months prior to applying to Zopa for credit. The information Zopa had didn't show the last one of these, which is unsurprising given that there can be a lag between opening a line of credit and it being reported on a credit file. But, as mentioned, there was no adverse information recorded on his credit file about these accounts. The amount Mr H owed altogether wasn't so large relative to his means that it was unlikely he'd be able to repay this within a reasonable period of time, even including this new account. So I don't think the fact that Mr H had recently opened these other accounts should have led to Zopa declining his application.

Mr H said he'd recently missed several payments on a home credit account and had defaulted on accounts which had outstanding balances. The information Zopa saw showed Mr H had settled all his home credit accounts without missing any payments. While Mr H had some defaulted accounts, as mentioned, most had been settled by the time he took out his Zopa credit card and one was being repaid. I think the adverse information about Mr H's other accounts wasn't so recent or of such an amount that it should have prompted Zopa to consider that he wasn't likely to be able to repay more credit without difficulty.

Altogether, I don't think Zopa was irresponsible when it opened the account for Mr H.

I have thought about whether Zopa treated Mr H fairly when it doubled his limit in April 2022. Zopa said that Mr H had shown no issues with his payments up to that point and had been making more than the minimum payment. I don't know what other information Zopa relied on to check that this increase would be affordable for Mr H.

I can see from Mr H's credit file that he'd taken on another credit card and three loans since opening the account in August 2021. Zopa provided us with up-to-date information about

Mr H's credit file which shows the increase in his overall balance on other accounts from £1,092 in September 2021 to £4,634 in April 2022, so I think Zopa would have been aware of this increased borrowing before it increased his credit limit. Mr H had also made some cash withdrawals on his other credit cards, for example £80 in November 2021. He'd withdrawn £40 in October 2021 on his Zopa card and £40 again in November, and Zopa would have been aware of these at least.

I think all of this should have prompted Zopa to look into Mr H's circumstances in more detail before increasing his limit in 2022 to check he would be able to repay further borrowing out of his usual means. So I don't think its checks were proportionate on this occasion.

Mr H has provided us with his bank statements and I've looked at these to understand what Zopa might have found out, had it carried out an appropriate check before the limit increase. I'm not suggesting this is the information it should have sought but I think it's reasonable to rely on this to understand what Mr H's means were at the time.

Mr H was paid weekly and the amounts varied but were on average around £1,800 a month for January to March 2022. As mentioned, Mr H's borrowing had increased and he was spending about £530 a month repaying his debts, which was a sizeable proportion of his income. He was spending about £400 on bills such as utilities and a mobile phone contract and paying £75 to buy-now-pay-later companies. Mr H had told Zopa his monthly housing costs came to £400 - I don't have any other information about these and these costs aren't identifiable on his bank statements. Altogether, I've estimated that Mr H's outgoings at the time were around £1,400. So it seems that Mr H would be able to afford to repay the increased amount of credit, even considering that he would have other costs such as food, transport and clothing.

I think Zopa would have learnt this through a proportionate check and would still have offered Mr H an increased credit limit. So I can't say that it was irresponsible to have offered this on the basis of the information it had at the time. I appreciate that this will be very disappointing for Mr H but having carefully considered the matter I am not upholding his complaint.

My final decision

For the reasons given above, I am not upholding Mr H's complaint about Zopa Bank Limited trading as Zopa and don't require it to take any action.

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

Michelle Boundy
Ombudsman