DRN-4395160

The complaint

Miss T complains that Zopa Bank Limited was irresponsible in its lending to her.

What happened

Miss T was provided with a £4,000 loan in November 2018. The loan was repayable over 36 months with monthly repayments of around £129. Miss T says that adequate checks weren't carried out before the loan was provided and that the loan added to her financial problems. She says she used the loan to repay other debt and she was living on credit at the time as well as borrowing from family and friends.

Zopa issued a final response letter in October 2022. It said that when assessing a loan application its underwriting team considers several factors including credit profile, credit history and affordability. It said it used information gathered through the application and credit reference agencies. It didn't accept that it had lent irresponsibly to Miss T.

Miss T wasn't satisfied with Zopa's response and referred her complaint to this service.

Our investigator upheld this complaint. He noted that at the time of the loan application Miss T had outstanding balances totalling £10,696 which was just under 58% of her net annual income. This figure increased to around 79% of her net annual income when the Zopa loan was included. He said that Miss T had access to over £30,000 worth of credit and thought that Zopa should have contacted Miss T at the time to understand whether the additional credit was needed.

Our investigator noted the affordability assessment carried out by Zopa but thought it should have taken into account the cost to Miss T had she made use of all the credit available to her. He said had this been included in the assessment Miss T wouldn't have been able to afford to make her mortgage repayments or pay for other expenses. He said that further checks should have taken place but said that based on the information Zopa had at the time it should have realised the lending was irresponsible.

Zopa didn't agree with our investigator's view. It said that its checks showed Miss T had other credit at the time of application, but these accounts weren't near or at their limits at the time and didn't raise concerns. It said the loan had an APR of 6.95% which was likely to be a more favourable rate than the other lines of credit available to Miss T and so this may be why she chose to apply for the loan rather than use her existing credit cards. It said Miss T's total debt was within its risk policy.

My provisional conclusions

I issued a provisional decision on this complaint the details of which are set out below.

The relevant rules state that a firm must undertake a reasonable assessment of creditworthiness and affordability. Affordability checks should be proportionate and what is proportionate depends on things like – but not limited to – the size of the loan, the *repayments, what the lender knew about the consumer, and the things the consumer told it about their circumstances.*

In this case Miss T applied for a £4,000 loan repayable over 36 months with monthly repayments of around £129. Before providing the loan, Zopa carried out a credit check. I have looked at the results of this and these didn't raise any concerns about how Miss T was managing her existing credit commitments. The credit report showed that Miss T had an outstanding mortgage (which was also noted in her loan application) four credit card accounts and two mail order accounts. These accounts were opened over several years and while Miss T had a large outstanding balance on one of her mail order accounts her credit card balances weren't near their limits and two accounts had zero balances. Considering this information, I do not find that it suggests Miss T was struggling to manage her credit accounts at the time of her loan application.

That said, Miss T did have access to a large amount of credit with credit limits totalling £26,550 on her credit cards (and £14,400 on her mail order accounts). She noted the new loan was for home improvements. Miss T had unused credit lines of more than the amount of the loan and so it could have been reasonable for Zopa to have asked why she needed to take on further credit at that point. However, noting the interest rate on the loan, I accept this was likely to have been a lower cost than using other credit lines. So, while I think it would have been reasonable to ask about this, I do not find that Miss T was necessarily disadvantaged by taking on the new lending.

Zopa has said that Miss T's debt to income and disposable income were within acceptable limits. Miss T's application recorded her as being employed full time with a monthly net income of around £1,585. Given Miss T's existing credit commitments at the time of the loan application I think it was reasonable that her income be verified, and I can see this happened through a credit reference agency. Miss T was making repayments for her mortgage of £348 and Zopa included an amount of around £577 to reflect the repayments towards her existing balances on her credit card and mail order accounts. A further amount of £28 was included for another credit commitment with another retailer. This left Miss T with a disposable income after the loan repayments of around £500.

I agree with our investigator that had Miss T been using all of the credit available to her at the time of the loan application the loan wouldn't have been affordable. But, in this case I think it is reasonable to make the assessment on Miss T's outstanding balances and commitments at the time. I say this because Miss T's credit report didn't raise concerns about how she was managing her other credit commitments and it appears that she was choosing which credit lines to use (she wasn't using two of her credit cards). Having looked at Miss T's commitments at the time and allowing for her living expenses, I do not find I can say this loan should have been considered unaffordable.

I also note that Miss T was able to maintain her repayments on the loan and didn't raise any concerns about financial difficulty during the loan term.

Miss T didn't agree with my provisional decision. She said that she didn't fall into financial difficulty repaying the loan as she set the payment to be taken as soon as she was paid but she often didn't then have enough money to last until her next payday. She said she wasn't able to clear her other debts with the loan and so it wasn't a cheaper option.

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 note the comments Miss T has made in response to my provisional decision, but I do not find that these change my conclusions. As I set out in my provisional decision, a credit check was carried out before the loan was provided and this didn't raise concerns that Miss T might be struggling financially. Miss T's income was verified and based on the amount she was paying for her other credit commitments, including her mortgage, I do not find that the loan appeared unaffordable.

I understand the point Miss T has made about how she was able to make the loan repayments and that she wasn't able to clear her other debts. But I have to consider the information that was available to Zopa at the time the loan was provided and what it would have identified had it asked further questions about the reason for the loan. Based on this I do not find that I have enough to say that Zopa should have considered that the loan was unaffordable for Miss T.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss T to accept or reject my decision before 9 November 2023.

Jane Archer
Ombudsman