

The complaint

Mr A complains Zopa Bank Limited lent irresponsibly by approving two loan applications he made.

What happened

Mr A applied for a loan of £10,000 over 36 months with Zopa in December 2016. The reason for the loan was given as debt consolidation. In his application, Mr A said he was employed full time with a net monthly income of £1,737.27. Mr A also said he was a tenant with monthly rent of £485 a month. Zopa says it carried out a credit search and found Mr A had around £3,400 outstanding via credit cards, an overdraft of around £2,000, and a hire purchase agreement of £4,425. Zopa found Mr A's monthly repayments for his outstanding credit totalled around £560 a month. Zopa calculated that Mr A had around £690 a month in disposable income which was enough to make payments of £350.34 a month towards the loan.

Zopa approved Mr A's application and released the funds to him. Mr A maintained the payments without any arrears during the term and repaid the loan in 2020.

In May 2022 Mr A applied for a loan of £3,000 over 36 months with Zopa. In this application, Mr A advised he was a tenant with rent of £470 a month. Mr A advised he was employed with an income of £46,000. Zopa calculated a net monthly income figure of £2,907.04. Zopa carried out a credit search and found Mr A owed around £2,600 to credit card providers, around £2,500 to mail order providers and £14,750 in unsecured loans. Zopa calculated the monthly repayments for Mr A's existing credit came to £830.40. Zopa calculated Mr A had around £1,488 available after covering his outgoings and approved the loan with a £118.42 payment each month. Zopa's advised Mr A has maintained his payments without issue.

Last year, Mr A complained that Zopa lent irresponsibly. Zopa issued a final response but didn't agree it had made a mistake or treated Mr A unfairly. Mr A referred his complaint to the Financial Ombudsman Service and it was passed to an investigator. They thought Zopa had dealt with Mr A's applications and complaint fairly and didn't ask it to do anything else. Mr A asked to appeal, so his complaint has been passed to me to make a decision.

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 done so, and recognising that it'll be disappointing for Mr A, I haven't been persuaded to uphold his complaint. I'll explain why below.

The Financial Conduct Authority (FCA) sets out in a part of its handbook known as CONC what lenders must do when deciding whether or not to lend to a consumer. In summary, a firm must consider a customer's ability to make repayments under the agreement without having to borrow further to meet repayments or default on other obligations, and without the repayments having a significant adverse impact on the customer's financial situation.

CONC says a firm must carry out checks that are proportionate to the individual circumstances of each case. But there's no set list of checks or information a lender has to obtain before approving an application for borrowing.

As Mr A is complaining about two loans, I'll look at each in turn. As I've set out above, Zopa obtained a range of information about Mr A's circumstances from the application form. That included information about Mr A's income and residential status and costs. And I can see Zopa obtained a full credit report for Mr A. Zopa didn't find evidence of any adverse information or missed payments. And whilst I note Mr A was using his overdraft, Zopa used a credit reference agency to verify the level of income being paid into his bank account each month. So I'm satisfied Zopa had a reasonably detailed picture of Mr A's circumstances at the point he applied for the loan in December 2016.

The loan amount was reasonably large, but Mr A gave the reason for borrowing as debt consolidation in the application. Zopa's made the point it was of the understanding that Mr A intended to use the funds he borrowed to repay other credit accounts which would improve his situation overall. But Zopa's lending assessment took Mr A's existing credit commitments into account, regardless of whether they'd be repaid or not.

I'm sorry to disappoint Mr A but I'm satisfied the level and nature of the checks Zopa completed were reasonable and proportionate when he applied for a loan in December 2016. Taking everything I've seen into account, I haven't been persuaded that Zopa lent irresponsibly.

Mr A applied for another loan with Zopa in May 2022. Zopa says that, at this point, Mr A had good track record with it. Mr A had repaid his previous loan without missing any payments or advising he was in financial difficulties. The second loan was for a lower amount. And Mr A's declared income had increased substantially which meant there was a higher surplus income once his commitments were taken into account. Again, the income figure declared was verified via a credit reference agency.

I can see a credit search found evidence of Mr A's commitments to other lenders. I can see Mr A's level of unsecured debt had increased from his previous application. But that was over five years before. And, as noted above, Mr A's income and job role had changed during that time. Zopa's confirmed it didn't find adverse credit or information that would've caused it to take the view Mr A was experiencing financial difficulties. And looking at the information Zopa found, I'm satisfied that's the case.

Zopa's calculations shows Mr A had around £1,488 in disposable income once his outgoings were met. In my view, it was a reasonable decision to approve Mr A's loan with monthly repayments of £118.42.

Whilst I understand my decision is likely to come as a disappointment to Mr A, I'm satisfied Zopa completed proportionate checks before it approved his loan. And, for the reasons I've given above, I haven't been persuaded Zopa lent irresponsibly.

My final decision

My decision is that I don't uphold Mr A's complaint about Zopa Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 13 March 2024.

Marco Manente
Ombudsman