

The complaint

Mrs P complains that Zopa Bank Limited irresponsibly provided her with a credit card account she couldn't afford.

What happened

In January 2023, Zopa opened a credit card account for Mrs P with a credit limit of £1,200.

Later in 2023, Mrs P complained to Zopa that it shouldn't have opened the credit card account as it was unaffordable for her. When Zopa told Mrs P it didn't think it had done anything wrong, she brought her complaint to this service.

Our investigator considered the complaint and ultimately recommended that it should be upheld. They felt the credit was likely to be unaffordable for Mrs P based on her circumstances at the time of her application and that Zopa should have discovered this.

Zopa didn't agree with the investigator's findings, so the complaint was passed to me to review afresh.

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, I uphold the complaint. I'll explain why.

I confirm that I broadly agree with the investigator's findings on Zopa's decision to lend to Mrs P in January 2023 and their reasoning. In summary, I'm satisfied that the regulator's rules and guidance at the time meant Zopa needed to assess whether Mrs P would be able to afford and sustainably repay the lending taking account of factors such as her income. The checks needed to be proportionate bearing in mind things like the amount of credit, the cost and Mrs P's circumstances.

In applying for the account, Mrs P's declared her annual income to be £38,000 a year. She said she was a homeowner with a mortgage and that her housing costs were £555 a month. Zopa says this information, combined with that obtained from the credit reference agency (CRA) it instructed, meant its lending criteria were met and that Mrs P could have the credit.

From this, it's clear that Zopa carried out affordability checks to some extent at least. But I don't believe those checks were sufficient in the circumstances. I say that because the checks the CRA performed showed no evidence of a current account or of a mortgage account in Mrs P's name. Zopa knew she had a mortgage because she'd declared this in her application. I can't see that Zopa queried or investigated this discrepancy before providing the credit it did, and so I believe it should have carried out more checks at that stage.

I've thought about what Zopa likely would have discovered had it carried out further checks of Mrs P's financial situation in January 2023. I've done that with the aid of additional

information from Mrs P, now provided to Zopa by the investigator, and including bank account details, a credit report and copy payslips and a P60.

Among other things, the information shows Mrs P's income was significantly lower than she'd originally declared, at around £20,000 a year as opposed to £38,000. Mrs P held a joint bank account and only when the other account holder's income was added to hers was her income closer to the £38,000 she'd declared. That might explain why she'd declared the figure she did in applying for the account.

I note that Mrs P's actual income meant she wasn't eligible for an account with a credit limit of £1,200 according to Zopa's lending criteria. So, it's unlikely she'd have obtained the account for those reasons.

A lending decision along those lines would tend to be supported by the fact that Mrs P would have had no disposable income available to repay the card given her contribution to a joint mortgage, household bills and childcare costs and other credit commitments. I'm satisfied all of this combined amounted to more than Mrs P's disposable income.

Taking everything into account, I can't see that Zopa carried out proportionate checks to determine the affordability of its lending. Mrs P's circumstances in January 2023 indicate to me that the lending wasn't affordable for her, so I think she's lost out because of Zopa's actions.

It follows that Zopa should put things right for Mrs P.

Putting things right

Zopa should put things right for Mrs P from the start of the credit card account, albeit she's had the benefit of the money borrowed and so may need to repay the principal amounts. So, Zopa should:

- Rework the credit card account balance to ensure that all the interest, fees and charges applied to it from the start are removed.
- If an outstanding balance remains on the account once these adjustments have been made, Zopa should contact Mrs P to arrange a suitable repayment plan for this.
- If no outstanding balance remains, any relevant adverse information should be removed from the credit file.

And

- If the refund means there's no remaining balance on the account, any extra should be treated as overpayments and returned to Mrs P.

And

- Pay interest of 8% simple a year on any overpayments from the date they were made (if they were) to the date of settlement†.

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

My final decision

For the reasons given, I uphold this complaint. I require Zopa Bank Limited to put things right for Mrs P as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P to accept or reject my decision before 12 January 2024.

Nimish Patel
Ombudsman