

The complaint

Miss D complains that Zopa Bank Limited lent irresponsibly when it approved her credit card application.

What happened

In July 2022 Miss D applied for a credit card with Zopa. In her application, Miss D said she was employed with an income of £37,000. Miss D also said she was a tenant with rent of £1,000 a month. Zopa carried out a credit check and found Miss D had unsecured debts totalling around £6,300 with a defaulted account of around £2,600. Zopa says it applied its lending criteria and approved Miss D's application. Zopa issued a credit card with a balance transfer limit of £1,500 and a purchase limit of £600. That meant the most Miss D could borrow from Zopa was £2,100.

Last year, Miss D complained that Zopa had lent irresponsibly when it approved her credit card. Zopa issued a final response on 30 August 2023 but didn't uphold Miss D's complaint. Zopa said the credit card had been correctly approved following lending checks – in line with its criteria.

Miss D referred her complaint to this service and it was passed to an investigator. They thought Miss D's application should've been declined based on the information Zopa found on her credit file and upheld her complaint. Zopa didn't agree and pointed out Miss D had maintained her credit card without issue since it was opened. Zopa asked to appeal, so Miss D's 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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've had this approach in mind when considering what's fair and reasonable in the circumstances of this complaint.

Before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks a lender is required to carry out, but it needs to ensure the checks are proportionate when considering things like: the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances.

Like our investigator, I think Zopa ought to have carried out more comprehensive checks before approving Miss D's credit card application. Zopa's confirmed it reviewed Miss D's credit file during the application process. I've looked at a full copy of Miss D's credit file and I think there were signs Miss D was beginning to struggle. There was a defaulted credit card recorded on Miss D's credit file from March 2021 with an outstanding balance of around £2,500. In addition, in the three months before Miss D's application was approved by Zopa she opened two new credit cards with other lenders that had credit limits of £2,850 and

£2,750. Zopa also found Miss D owed around £6,300 in other active debts at the time. Taken together, especially taking into account how recently Miss D had been approved for two other credit cards, I think Zopa ought to have done more to verify she was able to sustainably afford repayments.

Like the investigator, I think it's arguable that there were grounds to reject Miss D's application based on the information recorded on her credit file. But I also wanted to get a better understanding of what Zopa would've found if it had asked Miss D for further evidence before deciding whether to lend.

As I've noted above, there's no set checks a lender has to complete. But Zopa had the option of verifying Miss D's income along with reviewing her bank statements to get an understanding of her general circumstances. I recently asked Miss D to send me a copy of her bank statements for the months preceding her application to Zopa in July 2022.

Miss D's bank statements show she wasn't in receipt of an employed income of £37,000 as the application said. The bank statements showed Miss D's income varied in the months before she applied. For instance, in April 2022 Miss D was paid £1,544 and in May 2022 she was paid £2,100. Miss D's average earned income in the three months before she applied was around £1,750. I can see that Miss D was also in receipt of some benefit income. But that took Miss D's total monthly income to around £2,100. That's a lower figure than Zopa used in its assessment. In addition, Miss D's bank statements show her rent was £1,200 a month which was more than the figure of £1,000 declared in the income. I can see Miss D had regular outgoings that took up a substantial amount of her surplus income once her priority bills were paid. In addition, Miss D has dependents which increased her overall outgoings. Overall, I think Zopa would've also declined Miss D's application for a credit card if it had looked at her bank statements before deciding to proceed.

Like the investigator, I'm satisfied that Zopa ought to have carried out more comprehensive checks when considering Miss D's credit card application. And, for the reasons noted above, I'm satisfied that it wasn't reasonable approve Miss D's application. So I'm going to uphold Miss D's complaint.

My final decision

My decision is that I uphold Miss D's complaint and direct Zopa Bank Limited to settle as follows:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied since inception

AND

- If the rework results in a credit balance, this should be refunded to Miss D along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Zopa should also remove all adverse information regarding this account from Miss D's credit file

OR

- If after the rework there is still an outstanding balance, Zopa should arrange an affordable repayment plan with Miss D for the remaining amount. Once Miss D has cleared the balance, any adverse information in relation to the account should be removed from her credit file

*HM Revenue & Customs requires Zopa to deduct tax from any award of interest. It must give Miss D a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 15 February 2024.

Marco Manente
Ombudsman