

The complaint

Mr M complains that Zopa Bank Limited (“Zopa”) irresponsibly provided him with a credit card and increased his credit limit. Mr M is supported in bringing his complaint by a representative but for ease I’ll refer to Mr M throughout.

What happened

Zopa provided Mr M with a credit card in November 2020 for £300. His credit limit was increased to £900 in August 2021 and then to £1,600 in November 2022. I understand the account has defaulted.

Mr M complained to Zopa in August 2023. In summary, he said Zopa didn’t conduct proportionate checks when deciding whether to lend to him and as a result, he couldn’t afford to pay his household bills and is in financial difficulty. Mr M also says he was near his credit limit shortly before or after his credit limit was increased, showing his financial circumstances had changed and therefore his limit shouldn’t have been increased.

In its final response letter, Zopa didn’t uphold Mr M’s complaint because it didn’t agree the lending was irresponsible. Mr M remained unhappy and brought his complaint to this service. To support its position, Zopa provided our service with Mr M’s credit application data, his credit file information from the time of the initial lending, and bureau data, used to offer the credit limit increases.

Our Investigator considered both what Mr M and what Zopa had said. They said for the initial lending in 2020 and for the first credit limit increase in 2021, Zopa carried out proportionate checks which showed the lending was likely to be affordable for Mr M.

However, our Investigator concluded Zopa had lent to Mr M irresponsibly when increasing his credit limit for the second time in November 2022, mainly due to a significant increase in Mr M’s revolving and fixed term account balances in the month prior to the lending and several cash withdrawals on his credit card, three of which happened in the month prior to the limit increase. Ultimately, our Investigator concluded that for the second increase, Zopa had enough information to determine the additional borrowing was unlikely to be sustainable for Mr M.

Zopa disputed the Investigator’s findings. In summary, it said the lending was approved based on the information provided in the application which passed its affordability checks. And were a customer to fail these lending checks, it didn’t require additional evidence for the credit limit increases such as requesting bank statements.

Our Investigator said they hadn’t concluded Zopa ought to have carried out further checks – rather, based on the checks Zopa did complete, it shouldn’t have lent to Mr M.

Mr M also responded to our Investigator to say he didn’t agree that only one of the lending decisions should be upheld.

Because an agreement couldn't be reached, the complaint has been passed to me to decide on the matter.

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've addressed what I consider to be the crux of Mr M's complaint, which is that he was irresponsibly provided with a credit card and credit limit increases.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr M's complaint.

Having carefully considered everything provided, I'm partially upholding Mr M's complaint – and I'll explain why.

Zopa needed to make sure it didn't lend irresponsibly. This means it needed to carry out proportionate checks to understand whether Mr M could afford to repay before providing the credit card and increasing the limit. Generally, it might be reasonable and proportionate for a lender's checks to be less thorough (in terms of how much information it gathers and what it does to verify it) in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show it didn't continue to lend to its customer irresponsibly.

When Mr M was provided with the credit card in November 2020, with a limit of £300, Zopa was required to understand whether Mr M could sustainably repay the full amount it was prepared to lend, within a reasonable period of time.

When initially providing Mr M with the credit card, Zopa's checks showed:

- Mr M was employed full-time, earning £25,000 per year.
- Mr M had seven active credit accounts with a total unsecured balance of around £2,300 and no missed payments on these accounts.
- There were defaults on a credit card account, a mail order account and two communications accounts recorded against Mr M with a total default balance of around £400. All defaults were recorded more than three years before the account was opened and the credit card default had been settled.

Although the credit checks showed some adverse data, this had happened some years before, the total default balance was low and one of the default debts had been settled. Mr M also didn't seem to be overly indebted, and his financial situation appeared to be stable. Taking into account the modest limit, Mr M's income, total level of borrowing elsewhere and how he'd been managing that borrowing, it seems likely Mr M would have been able to sustainably repay the full amount Zopa was prepared to lend within a reasonable period of time.

Considering all of this, I'm satisfied the checks Zopa carried out were proportionate in the circumstances and it wasn't wrong for Zopa to issue the card with a limit of £300.

When Mr M's credit limit was first increased to £900 in August 2021, Zopa's checks showed:

- In relation to the management of his Zopa credit card account, Mr M hadn't missed any payments in the period leading up to the credit limit increase.
- According to the latest bureau data, Mr M hadn't had any new defaults recorded against him nor had he missed any payments on his other credit facilities, his revolving credit balance had increased only slightly from around £2,300 to £2,500 and he'd had one cash withdrawal on the Zopa credit card in January 2021 for £20.

Given the checks Zopa carried out didn't reveal any new adverse information on Mr M's accounts or much increase across them, I'm satisfied the checks carried out were proportionate in the circumstances. Whilst Mr M did have one cash withdrawal around seven months before his limit was increased, I agree with our Investigator that as an isolated incident for a low amount of £20, it wouldn't have been an indication on its own of financial difficulty and therefore didn't warrant further checks. I say this particularly in the context of all the other information available in relation to Mr M's circumstances at the time.

I'm also satisfied the increased limit was more likely than not affordable for Mr M because he'd been managing his Zopa account well, he also appeared to be managing his other accounts well and his indebtedness had only increased slightly. In other words, there didn't appear to be any recent financial difficulty, rather Mr M's financial situation appeared to be stable.

I don't find therefore that Zopa did anything wrong by increasing Mr M's credit limit to £900.

I appreciate Mr M has provided a full copy of his credit file which may show information additional to what Zopa's credit checks showed at the time of each lending decision. Whilst I've reviewed this information, the relevant information for me to consider is what Zopa gathered and relied upon, because I've found that it completed proportionate checks. And there isn't a requirement for lenders to review information from all three Credit Reference Agencies. Had I said Zopa ought to have gathered more information about Mr M's situation (i.e. that the checks carried out were not proportionate), I'd have likely then considered the information Mr M provided. Instead, given I've said Zopa's checks were proportionate, I've relied on what Zopa actually did see as part of its checks.

When Mr M's credit limit was increased for a second time in November 2022, to £1,600, Zopa's checks showed:

- In relation to the management of his Zopa credit card account, Mr M hadn't missed any payments in the period leading up to the credit limit increase.
- According to the latest bureau data, Mr M hadn't had any new defaults recorded against him. However, in the month leading up to the lending, Mr M's revolving and fixed term balances had increased significantly – to around £6,500 and £19,000 respectively.

There were also four cash withdrawals made on his Zopa credit card. One cash withdrawal was made for £100, around a year before the lending but three were made in the month before the lending, totalling £680.

I've carefully considered all of the circumstances here. Having done so, there was a clear change in Mr M's financial circumstances shortly before the lending. His external borrowing had increased significantly and this time, there were a number of cash withdrawals in quick succession and for a sizeable sum. Cash withdrawals on a credit card are usually an expensive way of getting access to cash and can be used in the absence of having access to cash elsewhere.

I accept however that, on its own, withdrawing cash on a credit card isn't always necessarily indicative of financial difficulties. But having thought about everything in the round, I'm satisfied the value and frequency of the cash withdrawals happening in the month before the lending, are enough for a cause for concern. Taking this with Mr M's substantial increased access to credit, as well as an increase in external debt, it is enough to persuade me there were likely financial difficulties. So, I'm satisfied Zopa had enough information to show that any additional lending was likely to be unsustainable.

Taking all of this into account, when increasing Mr M's credit limit for a second time, I think Zopa failed to make a fair lending decision based on the information it already had. Zopa ought to have realised that it was likely further lending may have been unsustainable for Mr M and that increasing Mr M's limit by around £700 would only make his financial situation worse.

I'm satisfied therefore Zopa shouldn't have increased Mr M's credit limit to £1,600 in November 2022.

Mr M went onto and is being expected to pay interest and charges on credit he shouldn't have been provided with. So, he's lost out because of what Zopa did wrong and therefore Zopa now needs to put this right.

Putting things right

As Mr M had the benefit of the money lent to him, it's fair he should repay the capital borrowed, but he's also paid interest and charges on a credit limit increase that shouldn't have been given.

So Zopa should:

- Rework the account, removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £900 after 15 November 2022.
- If the rework results in a credit balance, this should be refunded to Mr M 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 recorded after 15 November 2022 regarding this account from Mr M's credit file.
- Or, if after the rework the outstanding balance still exceeds £900, Zopa should arrange for an affordable repayment plan with Mr M for the remaining amount. Once Mr M has cleared the outstanding balance, any adverse information recorded after 15 November 2022 in relation to the account should be removed from Mr M's credit file.

*HM Revenue & Customs requires Zopa to deduct tax from any award of interest. It must give Mr M a certificate showing how much tax has been taken off if he asks for one.

My final decision

For the reasons set out above, my final decision is that I partially uphold Mr M's complaint, and I direct Zopa Bank Limited to settle this complaint as outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 23 May 2024.

Sophie Kyprianou

Ombudsman