

Complaint

Mr S has complained about a personal loan Zopa Bank Limited ("Zopa") which he says it unfairly lent to him. He says his existing debt meant that this loan was unaffordable for him.

Background

Zopa provided Mr S with a loan for £6,000.00 in October 2021. This loan had an APR of 19.8% and the total amount to be repaid of £8,484.04, which included interest fees and charges of £2,484.04, was due to be repaid in 48 monthly instalments of around £176.75.

One of our investigators reviewed what Mr S and Zopa had told us. He thought that Zopa hadn't acted unfairly and didn't recommend that the complaint be upheld. Mr S disagreed and asked for an ombudsman to review the complaint.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

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 S complaint.

Having carefully considered everything, I'm not persuaded to uphold Mr S' complaint. I'll explain why in a little more detail.

Zopa needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice, what this means is Zopa needed to carry out proportionate checks to be able to understand whether Mr S could afford to make his repayments before lending to him.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable 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 that it didn't continue to lend irresponsibly.

Zopa says it approved Mr S application after he provided details of his monthly income and some information on his expenditure. It says it cross-checked this against information on a credit search it carried out which showed his existing his commitments were relatively well maintained at the time of the application.

In Zopa's view all of the information it gathered showed that Mr S could comfortably afford to make the repayments he was committing to. On the other hand, Mr S has said he was already in significant debt and couldn't afford this loan.

I've carefully thought about what Mr S and Zopa have said.

It's clear that Zopa did obtain a reasonable amount of information before it decided to proceed with Mr S application. This information does appear to suggest that Mr S had some existing debts. But I'm afraid that I don't agree that these were excessive, particularly as a significant chunk was made up of a hire-purchase agreement. And it is also worth noting that Mr S didn't have any significant adverse information – such as defaulted accounts or county court judgments recorded against him at this time either.

Furthermore, I can also see that Mr S said that he was going to consolidate his existing borrowing too - pretty much all of his existing debt apart from his hire-purchase agreement. I don't know if Mr S did go on to consolidate his existing debt in the way that he said he would. But Zopa could only make a reasonable decision based on the information it had available at the time.

It won't have known whether Mr S would go on to repay his debts, or even if he did whether he might re-establish balances on his credit cards or take out other loans – all it could do was take reasonable steps and rely on assurances from Mr S that the balances would be repaid with these funds.

So I'm satisfied that the proceeds of this loan could and should have been used to clear Mr S existing credit - potentially at a cheaper interest rate too. And as this was a first loan Zopa was providing to Mr S for some time (Mr S' first loan which he's not complained about was taken two years previously) and the payments for this loan weren't that much higher, Zopa was reasonably entitled to believe that Mr S would be left in a better position.

I think that this being Mr S' second loan was a potential warning sign that Zopa needed to keep in mind going forwards. But I don't think that by the time of this application it was clear that a pattern of unsustainable borrowing had already developed and that Zopa ought reasonably to have factored into its decision.

It's possible that if Zopa had gone into the depth of checks Mr S appears to be saying it should have – such as obtaining bank statements – it might have reached a different answer. I know that Mr S has referred to problem gambling. But the key here thing is that I don't think the circumstances of the lending here warranted obtaining bank statements. Zopa was providing a loan with relatively small monthly payments – especially when compared to Mr S income.

At the absolute best, given the circumstances of this not being Mr S' first loan, I might have expected Zopa to have a better understanding of Mr S' actual living costs, rather than carry out a complete review of Mr S finances. And given what Mr S says made this loan unaffordable, I don't think that carrying out these further checks would have shown the loan payments were clearly unaffordable either.

Equally, it's only fair and reasonable for me to uphold a complaint in circumstances where a firm did something wrong. Given the circumstances here, and the lack of obvious inconsistencies, I don't think that reasonable and proportionate checks would have extended into the level of checks Mr S is suggesting. As this is the case, I don't think that Zopa did anything wrong when lending to Mr S - it carried out proportionate checks and reasonably relied on what it found out which suggested the repayments were affordable.

So overall and having considered everything, I'm satisfied that Zopa didn't treat Mr S unfairly or unreasonably when lending to him. And I'm not upholding Mr S complaint. I appreciate this is likely to be very disappointing for Mr S – especially bearing in mind what he's said

about another complaint of his being upheld. But I hope he'll understand the reasons for this decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mr S complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 14 March 2024.

Jeshen Narayanan
Ombudsman