

The complaint

Miss B complains that Zopa Bank Limited (“Zopa”) irresponsibly gave her a loan she couldn’t afford.

What happened

In January 2022 Miss B applied for a loan with Zopa. She said the purpose of the loan was debt consolidation. She was approved for a loan of £13,000 with monthly repayments over four years of £353.10 per month.

Our investigator said the complaint shouldn’t be upheld. Essentially, this was because he thought Zopa’s checks were enough to show that the loan was likely to be affordable so that Miss B would be able to repay it sustainably whilst still meeting her remaining credit and daily living costs.

As Miss B didn’t agree with our investigator’s finding, the complaint has been passed to me to decide.

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.

Zopa will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don’t consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

I’ve read and considered the whole file, but I’ll confine my comments to what I think is relevant. If I don’t comment on any specific point it’s not because I’ve failed to consider it but because I don’t think I need to comment on it in order to reach what I think is the right outcome in the wider context. My remit is to take an overview and decide what’s fair “in the round”.

Miss B’s complaint is that Zopa made a loan available to her that was unaffordable and so it should have carried out better checks before agreeing to lend. In making my decision, I’ve looked at the information that was available, or likely to have been available, to Zopa at the time it made its lending decision, rather than relying on hindsight.

Zopa has explained it used information that Miss B provided at the time of her application to help it assess if it was likely to be affordable. This included details of her annual income and mortgage commitment. Miss B said she was earning a monthly net income of around £2,000. Zopa also looked into Miss B’s credit history, including what she already owed to help to understand how she had been managing that debt.

Miss B told our investigator that her income was roughly half of what is shown in Zopa's loan application file and that at the time she was on maternity leave. This isn't something I would have expected Zopa to have been aware of unless Miss B told them about it so it could be factored into their affordability check.

In her application for the loan, Miss B indicated she was going to use it to pay off existing debts from unsecured borrowing. This was made up of loans, credit cards as well as an overdraft she was using with her bank account. Based on what it had seen, Zopa thought Miss B would be left with enough disposable income to pay the new loan plus any remaining credit she'd have left.

I think Zopa carried out checks that were reasonable and proportionate. Importantly, there were no adverse markings on her credit history, such as a defaulted account or county court judgment against her. However, just because I think Zopa carried out proportionate checks, it doesn't automatically mean Zopa made a fair lending decision. So, I've thought about what the evidence and information about its checks showed. Having done so, I think what it gathered was reasonable. I'll explain why.

Miss B was using the whole loan to pay off existing credit. Aside from the mortgage she was continuing to pay, she would be left with around £400 in existing debt. Miss B has suggested that notwithstanding using the loan to consolidate some existing credit, it was still unaffordable for her as her finances were already stretched. But I haven't seen enough evidence or information about this to suggest that Zopa should have asked for further details about her financial circumstances at the time of the application.

By taking the loan I think Miss B would be significantly reducing her existing monthly credit repayments. These payments look to have been costing her around £700 each month. So the £350 that the loan would cost, albeit over a four year period, would reduce her monthly costs. The only credit she'd be left with, aside from her mortgage, would be around £430 which would cost around £25 each month - assuming she would want to be paying it off sustainably.

It therefore looks likely that Miss B would be left with £6-700 each month in other income out of which she could meet her other daily expenses, such as housing costs, food and transport costs.

It follows that, based on the evidence and information I've seen, I think it's likely that Zopa would have found Miss B to be in a position to be able to sustainably repay her new loan.

To summarise, I think Zopa made checks that were proportionate at the time that the lending decision was made. And I haven't seen anything to make me think that the evidence and information Zopa had seen at the time would have led it to think that the lending Zopa provided to Miss B was unreasonable.

I know Miss B is disappointed with our investigator's assessment and has told us about the difficult financial circumstances she is currently experiencing. But in making this decision I am looking mainly at the question of whether B acted fairly in granting the loan based at the point it looked into her financial circumstances.

Miss B has also made reference to another complaint she has brought to this service. But each case is decided on its own merits based on the particular circumstances of the borrowing, the checks performed at the time and the actual circumstances of the consumer.

I am sorry to have to disappoint Miss B but, having considered all the available evidence and information, especially from the time of the lending decision, I have not found sufficient evidence to uphold this complaint.

My final decision

For these reasons, my decision is that I don't uphold Miss B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 3 April 2024.

Michael Goldberg

Ombudsman