

## **The complaint**

Miss L complains that Zopa Bank Limited (“Zopa”) provided her with credit that she couldn’t afford to repay.

## **What happened**

Zopa approved a loan of £5000 for Miss L in November 2022. The loan was to be repaid at £162.42 per month over a 48 month period.

Miss L complained to Zopa and said they were wrong to provide credit as it wasn’t affordable for her.

Zopa disagreed. They said that when they approved the loan they used a combination of credit reference agency and self-reported information to assess the application. They verified Miss L’s income and considered her likely expenditure. They noted that her credit file didn’t contain any adverse information and that it suggested her accounts were being well managed. Overall, they thought that the checks they had done were reasonable and proportionate and that they didn’t suggest Miss L would have any difficulty affording repayment of the credit they advanced to her.

Our investigator didn’t agree. She thought there was evidence Miss L had been cycling her debt, taking loans out to repay loans. She thought Zopa should have noticed that and that the checks they had done were not reasonable in the circumstances. She looked at Miss L’s bank statements to see what Zopa would have seen had they performed reasonable checks and that information confirmed that Miss L was unlikely to be able to sustainably afford the debt. The investigator, therefore, thought Miss L’s complaint should be upheld.

Zopa didn’t agree with the investigator’s view. They explained that the credit file they had reviewed didn’t demonstrate Miss L was in a cycle of debt and that it didn’t raise any concerns about affordability. They asked for a decision by an ombudsman.

## **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.

I don't think Zopa completed reasonable and proportionate checks before approving the loan as I think there was evidence of unusual borrowing that warranted further investigation. Miss L had taken out six loans in the last year with repayment periods of between 12 and 24 months but she had settled them all very quickly. That was unusual behaviour and should have raised concerns that the consumer was cycling debt.

I don't know what Zopa would have discovered had they carried out further checks, they didn't have to ask for bank statements, but I think it's likely that would have been the best source of information, so I've considered them to see what Zopa would have discovered had they performed more reasonable checks.

The statements show that Miss L's income was a little less than Zopa had considered when they performed their affordability checks. She was earning about £1,384 per month. Creditors accounted for £464 of that and Miss L needed £276 for her mortgage payments. Once this new debt was taken into account she would have had about £484 for other essentials but her bank statements suggest she needed about £800. Even if the income figure Zopa considered was used, I think the evidence suggests this loan wouldn't have been sustainably affordable for Miss L. It was clear from the statements that Miss L was taking out loans to pay off loans and there was also evidence of her taking out two new loans in October and November 2022 that weren't included on the credit report Zopa had reviewed, but would have been evident to them had they performed more reasonable checks.

So, I think this loan wasn't sustainably affordable for Miss L.

### **Putting things right**

As I don't think Zopa should have approved the loan I don't think it's fair for it to charge any interest or charges. However, Miss L has had the benefit of the capital she lent so I think she should pay that back. Therefore, Zopa Bank Limited should:

- Deduct the repayments Miss L made from the amount she was lent.
- If this results in Miss L having paid more than she received, any overpayments should be refunded along with 8% simple interest\* (calculated from the date the overpayments were made until the date of settlement).
- If any capital balance remains outstanding, then Zopa should attempt to arrange an affordable repayment plan with Miss L.
- Remove any negative information they may have recorded on Miss L's credit file relating to the loan once any outstanding balance has been repaid.

\*HM Revenue & Customs may require the business to take off tax from this interest. If it does, the business must give the consumer a certificate showing how much tax it's taken off if they ask for one.

**My final decision**

I uphold this complaint and direct Zopa Bank Limited to put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 14 May 2024.

Phillip McMahon  
**Ombudsman**