

## **The complaint**

Mr B has complained that Zopa Bank Limited acted irresponsibly when it provided him with a credit card in July 2021.

## **Background**

Mr B applied for a Zopa credit card in July 2021. His application was approved, and he was given a credit card with a £300 limit. At the time of application Mr B has said he was already overextended financially and that if Zopa had completed proper affordability checks it would have realised he was spending more than he could afford and wouldn't have approved him for the card. He has said since taking the card out his financial situation has worsened, and he's had to enter a Debt Management Plan. He's asked that Zopa refund all interest and charges added to the account since its inception as well as remove all linked negative markers from his credit file.

Zopa has said that at the time of application Mr B's declared income was £40,000. He had some open credit accounts already, all of which were well maintained, and there was no evidence of financial stress on his credit file. It has said it completed sufficient checks and as there was nothing in those to cause alarm approved the application with a low opening limit. It says the account was well maintained for the first year it was active, and that the lending decision made in July 2021 was reasonable and appropriate. So, it didn't think it had done anything wrong in approving Mr B for the credit card and it didn't uphold his complaint.

Unhappy with Zopa's response Mr B brought his complaint to our service. One of our investigators looked into it already. He found that at the time he applied for the credit card Mr B was already showing signs of being overly reliant on credit. While he accepted Zopa had verified Mr B's income and checked his basic credit rating, he thought it should have done more thorough checks than it did. If it had, he said Zopa would have seen a worrying pattern of spending across Mr B's bank accounts and an over reliance on his existing credit cards and overdraft facilities. So, he thought it was inappropriate for Zopa to provide Mr B with the additional credit as he felt there was sufficient indicators that Mr B was already struggling to manage his finances. He upheld the complaint on that basis.

Mr B accepted the investigator's findings, but Zopa didn't. It repeated that the checks it had completed at application were sufficient and there were no signs that Mr B wouldn't be able to manage the card. As it didn't agree with the investigator it asked for an ombudsman to review the complaint again and so it's been passed to me for consideration.

## **My findings**

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

Having done so I agree with the conclusions reached by our investigator and for much the same reasons. For the sake of clarity, I've set them out below. I also want to acknowledge that I've summarised the events of the complaint. But I want to assure both parties that I've reviewed everything on file. And if I don't comment on something, it's not because I haven't

considered it. It's because I've concentrated on what I think are the key issues. Our powers allow me to do this. This simply reflects the informal nature of our service as a free alternative to the courts.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, the total cost of the credit and what it knew about the consumer at the time of application. It should also be considering, not only whether the credit looks to be affordable in the first instance, but whether or not its likely to be sustainable across the term of the borrowing.

At the time of application Mr B was earning approximately £40,000 a year and his credit report showed he had outstanding credit commitments totalling just under £15,500. Zopa asked Mr B to complete an income and expenditure form and concluded that he had an existing debt to income ratio of around 30%, which generally wouldn't be considered that high. As there was no evidence of missed payments or arrears on his credit file, Zopa decided that the credit card would likely be affordable for Mr B and approved his application.

On the face of things, I agree that it appeared as though Mr B's credit rating was reasonable, and his overall indebtedness wasn't that high. However, looking at his credit file, I can see there were indicators that Mr B's finances were beginning to spiral, and I think Zopa should have paid closer attention to these signs.

I say this because, although there were no missed payments on Mr B's credit file at the time, he did already have three existing credit cards, all of which he was actively using. And two of those were sitting very close to their upper limits. In addition, it was clear that Mr B had three open bank accounts, two of which had active overdrafts. And the overdraft usage was high on both. In fact, one account, which had an overdraft limit of £2,500, showed a total usage of £2,249 when Mr B applied for the credit card with Zopa. The second account, which had a limit of £3,000, showed lower usage, but was still overdrawn. So, while it may have appeared that Mr B had a low debt to income ratio and sufficient disposable income available to him, the way he was using his overdraft indicated that may not have been the case.

I think Zopa should have been more curious about this as it potentially indicated that the lending may not be sustainable for Mr B. And, as mentioned above it's obliged to consider, not just whether it looked to be affordable, but whether it was also likely to be sustainable. So, I think it should have requested more information once it had completed the basic checks it did and saw the credit usage on Mr B's accounts.

While there is no specific rule requiring lenders to ask potential customers for copies of their bank statements, given I think Zopa should have clarified why Mr B was relying on his overdraft facility in the way he was, I think the easiest thing it could have reviewed were his bank account statements. And if it had done this, it would have realised that Mr B had been consistently overdrawn on his accounts for many months prior to applying for the credit card. Looking at Mr B's accounts I can see that Mr B was essentially consistently overdrawn on one of his accounts, from April 2021 onwards. The account would go into credit when he was paid, but only for a day or so, sometimes less. And there's evidence in June 2021, a month before he applied for his credit card with Zopa, that Mr B had also taken out a large loan for £7,500. This may not have shown on his credit file in July but was clearly evident on his bank statements.

Looking at the transactions on the accounts in more detail it does seem as though Mr B was gambling in a problematic way, and that was leading him to use his overdraft more and more frequently. All of which indicates that Mr B's finances weren't in as good order as Zopa had thought they were. Which means providing him with access to additional credit in July 2021 was an inappropriate thing to do.

For those reasons, I agree with our investigator and am upholding Mr B's complaint.

### **Putting things right**

In order to put things right Zopa Bank Limited should:

- Rework the account removing all interest, fees, charges, and insurances (not already refunded) that have been applied.
- If the rework results in a credit balance, this should be refunded to Mr B 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 Mr B's credit file.
- Or, if after the rework there is still an outstanding balance, this can be repaid as part of Mr B's Debt Management Plan. Once Mr B has cleared the balance, any adverse information in relation to the account should be removed from his credit file.

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

### **My final decision**

For the reasons set out above I uphold Mr B's complaint against Zopa Bank Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 30 May 2024.

Karen Hanlon  
**Ombudsman**