

## **The complaint**

Ms P complains that Zopa Bank Limited (“Zopa”) gave her a loan she couldn’t afford to repay.

## **What happened**

In January 2022 Zopa gave Ms P a loan for £15,000. The loan was to be repaid over 36 months at a monthly repayment of £514.63. The APR on the loan was 15.2% and so over the term of the loan Ms P would’ve been charged £3,526.51 in interest.

Before agreeing the loan Zopa said it completed a number of checks. It said that based on the information these checks revealed, Ms P could have afforded to repay her loan.

Our investigator considered the complaint and didn’t agree Zopa completed proportionate checks. She thought that had Zopa completed proportionate checks, it would’ve seen it shouldn’t have lent to Ms P. Zopa disagreed and as an agreement couldn’t be reached, the complaint was referred to 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.

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. I have used this approach to help decide Ms P’s complaint. Having carefully considered all the information I’ve been provided with, I’m upholding this complaint. I’ll explain why below.

Zopa needed to make sure it lent responsibly to Ms P. It therefore needed to complete sufficient checks to determine if Ms P could afford to sustainably repay the lending. Our website sets out our approach to what we typically think when deciding if a lender’s checks were proportionate. There is no set list of checks a lender should do, but there is guidance on the types of checks a lender could complete. However, these checks needed to be proportionate when considering things like amount and term of the lending, what the lender already knew about the consumer etc.

Prior to lending, Zopa asked Ms P for her income and regular expenditure for rent/mortgage costs. It also used a third-party information to verify the income declared, considered her debt-to-income ratios and completed a credit search. It said that based on the information gathered it concluded that Ms P could afford to repay her loan.

Having considered the checks completed, I don’t think they were proportionate. Ms P was taking out a £15,000 loan over 36 months, at a monthly repayment of £514.63. Zopa has recorded that Ms P had a net monthly income of £2,118.51. Therefore, almost a quarter of her net monthly income would be needed to repay this loan. This is a substantial proportion of Ms P’s monthly income. In addition, aside from completing a credit search, Zopa only asked Ms P about her housing costs. It made no attempts to explore the other regular

expenditure commitments Ms P had. I accept the credit search results didn't provide anything to suggest Ms P was currently struggling to manage her financial commitments. However, given the size of her loan and the portion of her monthly income committed to the monthly repayments, I would've expected Zopa to take further steps to explore her other regular outgoings in determining if this loan was affordable for Ms P.

I have also noted that Ms P declared £300 for Rent/Mortgage costs, however Zopa's credit search results reveal Ms P was actually paying £445 per month. So Ms P declared an amount which was almost a third lower than the actual amount. Whilst Zopa took the higher amount into consideration, this is still quite a large discrepancy. Given the loan repayment would have taken such a large proportion of Ms P's income, and having very limited information about Ms P's regular expenditure, I would've also expected Zopa to query why Ms P declared a lower amount.

And so taking everything into consideration, I don't think Zopa completed proportionate checks before agreeing to lend to Ms P.

I now need to consider what proportionate checks would have shown. This presents challenges as Zopa didn't complete proportionate checks, so I can't say for sure what these checks would've revealed. Ms P has provided bank statements in the months leading up to the loan being taken. In the absence of any other information, I think it's fair to rely on this to give an indication of the sort of information proportionate checks would've most likely revealed.

Ms P has told us she had a gambling problem and couldn't afford the monthly repayments for this loan. I have reviewed the bank statements Ms P has provided for both her current accounts. For one of her current accounts she has provided copies of statements for late December 2021. From these I can see that there was clear evidence of compulsive spending. During the period of 20<sup>th</sup> to 31<sup>st</sup> December 2021 Ms P spend over £15,000 on gambling transactions. So I think if Zopa had completed proportionate checks it would have seen that it wasn't reasonable or sustainable to agree this loan for Ms P. And that to do so would have been irresponsible.

In response to the investigator's assessment, I note Zopa has said that the loan was "*auto approved*" and so no further checks would have been completed, such as looking at bank statements. Whilst I appreciate Zopa felt it had gathered a proportionate amount of information to determine if Ms P could've afforded to repay the loan (and so "*auto approved*" it) I don't agree. For the reasons detailed above I think Zopa needed to gather further information. If it had done so, I think it should have been clear to Zopa that Ms P couldn't have afforded to sustainably repay this loan.

## **Putting things right**

Zopa should:

- Remove all interest, fees and charges applied to Ms P's loan from the outset. Any payments Ms P has made should then be deducted from the new starting balance. If any payments Ms P has made total more than the amount she was originally lent, then any surplus should be treated as overpayments and refunded to her.
- Add 8% simple interest\* calculated on any overpayments made, from the date they were paid by Ms P to the date the complaint is settled.
- Remove any adverse information recorded on Ms P's credit file as a result of this loan.

\*HM Revenue & Customs requires Zopa to deduct tax from this interest. Zopa should give Ms P a certificate showing how much tax it's deducted, if she asks for one.

### **My final decision**

I uphold this complaint and require 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 Ms P to accept or reject my decision before 9 May 2024.

Claire Lisle  
**Ombudsman**