

The complaint

Mr E complains that Zopa Bank Limited (“Zopa”) irresponsibly granted him a credit card that he couldn’t afford to repay.

What happened

Mr E entered into an agreement with Zopa to have access to credit with a credit card account. The account was opened in March 2022 with a credit limit of £300. There then followed two credit limit increases: in December 2022 to £600 and then in June 2023 to £1,300.

Mr E entered into a debt management plan in relation to previous credit defaults in April 2018, before he took out the card.

Mr E says that Zopa didn’t complete adequate affordability checks when it granted him the card and then went on to increase his credit limits. He says if it had carried out proper checks, it would have seen that it wasn’t affordable for him due to his overall financial situation and use of gambling sites.

Our investigator thought Zopa was fair in making its initial lending decision and also when it gave Mr E the first credit limit increase. But she said it shouldn’t have increased Mr E’s credit limit a second time, in June 2023. This was because the evidence shown by the checks it carried out at the time showed that Mr E had taken out several new lines of credits in recent months and this should have prompted further checks.

Zopa didn’t agree. It said that it carried reasonable and proportionate checks for the account opening and each credit limit increase.

The complaint has now been passed to me for a final decision.

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.

Account opening and first credit limit increase

Zopa completed a credit check to help it to look into Mr E’s financial circumstances. Zopa also relied on information Mr E gave in his application. Mr E said he had an annual income of around £23,000 which Zopa verified as correct. Mr E also owed around £4,700 in existing credit. He had some credit defaults on his file, but the most recent of these as from

30 months earlier. There were no other adverse markings on his credit record, such as late fees or credit defaults.

I've also thought about the debt management plan Mr E already had in place. Mr E was paying £146 per month to the plan provider. Whilst this shows Mr E has had issues with managing credit, the payment appears to have been sustainable in relation to his net income. And given that it likely relates back to his historical defaults, I wouldn't have expected it to affect the decision to grant him what was a modest opening credit that he then went on to manage well before being given his first increase.

As for the first limit increase, by this point Mr E had succeeded in reducing his overall credit exposure to around £3,600. He appeared generally to have been managing his Zopa account well by paying on time and making payments that were above the minimum required. He had opened a new line of credit in the previous month but had not otherwise been adding to his existing level credit exposure to the extent that I would have expected Zopa to be concerned.

I think on balance Zopa's checks up to now were reasonable and proportionate for both the card opening and first credit limit increase. Bearing in mind the modest £300 opening limit which was then doubled for the first credit limit increase, I think these searches showed that the credit was likely to be affordable for Mr E. His other credit commitments had reduced at the point of the second increase. His additional monthly payment would only be around £15 with the new increase, calculating at a sustainable level of 5%.

So I'm satisfied that for the account opening and first credit limit increase, the amount of credit looked to be affordable to Mr E. I therefore don't think Zopa acted unfairly.

Second credit limit increase

At this point, in June 2023, the £600 credit limit was increased to £1,300 – an increase of £700.

The checks carried out by Zopa showed Mr E had increased his existing debt to around £4,900, of which £2,200 related to card accounts. He continued to manage his Zopa account well, continuing to meet payments and often exceeding them. But the issue of concern to our investigator was that Mr E had opened up several new lines of credit in the run-up to accepting the increased credit limit – three in the previous three months and a total of four in the previous six months.

I agree this is a concern as it suggests that Mr E was beginning to rely increasingly on borrowing, for whatever reason. I think it would have been proportionate for Zopa to have taken steps to find out more about any changes to Mr E's income as well as the level of committed expenditure he was managing. I can't be sure exactly what Zopa would have found out if it had asked at the time. In the absence of anything else, I think it would be reasonable to place significant weight on the information contained in Mr E's bank statements as to the information about his financial circumstances that would most likely have been disclosed.

I've reviewed three months of bank statements leading up to this lending decision. I've seen that during this time Mr E was making extensive use of online gambling sites and doing so at a consistently high level that was well in excess of his monthly income. I think by this point, having seen that Mr E was increasing his credit debt whilst at the same time making heavy use of gambling sites, there was a very real risk that Mr E could be pushed into financial difficulty and that the additional credit limit could turn out to be unaffordable for him. I find it

difficult to see how if Mr E continued to gamble at this level he would be able to meet his existing credit commitments. I say this notwithstanding that his regular living costs appeared to be modest.

It follows that I agree with our investigator that Zopa ought not to have increased Mr E's credit limit in June 2023.

I've seen the response from Zopa to our investigator's finding. This appears to suggest that the checks it carried out were enough. But Zopa hasn't commented as to why it wasn't prompted to carry out more detailed checks to find out why Mr E had decided to borrow more across several credit products over a relatively short period of time.

It follows that I don't think Zopa should have increased Mr E's credit limit beyond the first credit limit increase.

Putting things right – what Zopa needs to do

Zopa shouldn't have increased Mr E's credit limit to £1,300 on 16 June 2023. Zopa therefore needs to do the following.

- Rework Mr E's account to ensure that all interest and charges should be removed from the account for balances over £600, being the previous credit limit increase. All late payment and over limit fees should also be removed; and
- If an outstanding balance remains on the account once these adjustments have been made, Zopa should contact Mr E to arrange an affordable repayment plan for the account. Once Mr E has repaid the outstanding balance, it should remove any adverse information recorded on Mr E's credit file from 16 June 2023 onwards.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mr E, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. Zopa should also remove any adverse information from Mr E's credit file from 16 June 2023 onwards.

†HM Revenue & Customs requires Zopa to take off tax from this interest. Zopa must give Mr E a certificate showing how much tax it's taken off if he asks for one.

My final decision

I therefore uphold this complaint in part and require Zopa Ltd to pay compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 7 June 2024.

Michael Goldberg
Ombudsman