

The complaint

Miss M complains that Zopa Bank Limited lent irresponsibly when it approved a loan for £12,000.

What happened

In February 2022 Miss M applied for a £12,000 loan with Zopa. Zopa says the application was made for debt consolidation purposes. In her application, Miss M advised she was a homeowner with a mortgage and employed with an income of £25,000. Zopa says it calculated Miss M's monthly take home income as £1,721. Zopa carried out a credit search and found Miss M had around £4,450 of credit card and mail order debt that cost around £222.50 to pay each month. Zopa also found Miss M had loans totalling £8,095 at £301 a month and two hire purchase agreements totalling £9,626 at £328 a month. Zopa found Miss M was paying £338 a month towards her mortgage.

Zopa found Miss M's monthly repayments for her existing debts came to £851.50 and that she had a mortgage of £338. When compared against M's net monthly income of £1,721 Zopa found she had around £531 left. The new loan payments were £320.59.

Last year, Miss M complained that Zopa lent irresponsibly when it approved her loan application. Zopa issued a final response but wasn't persuaded it had lent irresponsibly and didn't uphold Miss M's complaint.

Zopa asked to appeal and reiterated that the loan was for debt consolidation purposes. Zopa said that if Miss M had used the funds for the intended purpose it would've benefited her and saved money. As Zopa asked to appeal, Miss M's complaint has been passed to me to make a 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.

Before agreeing to lend, the rules say Zopa had to complete reasonable and proportionate checks to ensure Miss M could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances

by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

When Zopa looked at Miss M's application, it found she had existing unsecured debt that totalled around £22,000 that was costing £851.50 a month. Zopa found that after Miss M's mortgage and credit commitments were paid, she was left with around £531. Monthly repayments for the Zopa loan came to £320.59.

Zopa has explained the loan was for debt consolidation purposes. But I've seen no evidence that shows Zopa sought to get a clear picture of the debts Miss M intended to repay or how that would impact her monthly outgoings. Whilst I accept Miss M's loan application was made for debt consolidation purposes, there was still an obligation on Zopa to ensure it understood Miss M's circumstances and how the borrowing would impact her before it decided whether to lend. And I've looked at the loan contract Zopa issued to Miss M but note there's nothing within it that states she has to use the funds for a particular purpose – like repaying existing debts. I'm satisfied the onus was on Zopa to ensure Miss M was able to sustainably afford repayments without causing undue harm.

Given Zopa's argument that the loan was intended to repay existing debts and fact that it found her disposable income would've been largely used up by the new loan payment, I'd have expected it to be very sure it clearly understood Miss M's circumstances at the time of application. In my view, Zopa should've carried out better checks before it approved Miss M's loan application. As noted above, there's a range of options Zopa had available, like reviewing Miss M's bank statements. Miss M's sent us copies of her statements for the three months before she applied for the loan and I've reviewed those.

Like the investigator, I'm satisfied a thorough review of Miss M's statements would've shown she was unlikely to be able to sustainably afford further credit. Miss M's income varied between £1,207 and £1,762 in the months before she applied. Miss M's outgoings also varied considerably, depending in part on the amount of childcare costs she was incurring each month. Miss M's existing commitments in November 2021, for instance, were £1,648 without considering any essential spending like fuel, food or normal living expenses.

Overall, I think a more comprehensive approach to Miss M's application would most likely have led Zopa to decline to proceed on the basis she was already overcommitted. And whilst I understand Miss M did repay some debts in the period after her loan was taken, I haven't seen anything that shows she received a substantial benefit over the long term by doing so. It appears Miss M may've saved around £100 a month in the short to medium term by taking out the loan with Zopa. But given her existing commitments I still think Zopa's decision to approve a new loan of £12,000 with monthly repayments of £320.59 was unreasonable.

As I haven't been persuaded that Zopa lent responsibly I'm upholding Miss M's complaint.

My final decision

My decision is that I uphold Miss M's complaint and direct Zopa Bank Limited to settle as follows:

Add up the total amount of money Miss M received as a result of having been given the loan. The repayments Miss M made should be deducted from this amount.

- a) If this results in Miss M 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). †

b) If any capital balance remains outstanding, then Zopa should attempt to arrange an affordable and suitable payment plan with Miss M.

Remove any negative information recorded on Miss M's credit file relating to loan taken out 12 February 2022.

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

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

Marco Manente
Ombudsman