DRN-4818593

The complaint

Mr D is complaining about Zopa Bank Limited because he says it lent irresponsibly by giving him a loan he couldn't afford.

What happened

Mr D applied for and was approved for a series of loans with Zopa as follows:

- Loan 1 - January 2022 - £5,000 with monthly repayment of £141.
- Loan 2 - July 2022 - £8,500 over 48 months with, with a monthly repayment on £240 based on an interest rate of 17%. Approximately £4,500 of this amount was used to pay off loan 1.
- Loan 3 – February 2023

Mr D's complaint relates to loan 2 only. He accepts loan 1 was affordable and Zopa has already accepted loan 3 shouldn't have been given and taken steps to put things right.

Mr D was also approved for a credit card in 2023 and I understand Zopa has also accepted that shouldn't have been given.

Our investigator didn't conclude the complaint should be upheld. He felt Zopa carried out an appropriate affordability assessment prior to loan 2 and that its decision to lend was reasonable.

Mr D didn't accept the investigator's assessment, pointing out that Zopa has already upheld his complaint about loan 3 and his credit card.

The complaint has now been referred to me for review.

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.

Having done so, I've reached the same overall conclusions as the investigator, and for broadly the same reasons. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome. In considering this complaint I've had regard to the relevant law and regulations; any regulator's rules, guidance and standards, codes of practice, and what I consider was good industry practice at the time.

Before lending to Mr D, Zopa was required to carry out appropriate checks to ensure the repayments were affordable and sustainable. To decide whether this requirement was met, the key questions I need to consider in respect of loan 2 are:

- Did Zopa complete reasonable and proportionate checks to establish Mr D would be able to repay the loan in a sustainable way?

- If so, was the decision to lend fair and reasonable?

- If not, what would reasonable and proportionate checks have discovered, and would the decision to lend have been fair and reasonable in light of that information?

Zopa has described the information it gathered to assess whether Mr D's loan was affordable before it was approved. This included:

- information contained in his application, including residential status, employment status and his income, which was separately verified;
- information obtained from a credit reference agency (CRA), giving details of his existing credit arrangements and any past issues with credit; and
- an expenditure assessment using a combination of his declared housing costs, modelled data for key expenses, along with actual data from the CRA about the cost of his existing credit arrangements.

In making his application, Mr D declared his annual income was £30,000 and I note Zopa says this was separately verified with information from a credit reference agency (CRA). He doesn't appear to be disputing this figure.

In respect of Mr D's existing commitments, Zopa's credit check showed he had existing debts of around £14,000. But it also showed he was up to date with payments on his existing accounts and had no recent history of missed payments or defaults. It also showed his current account wasn't overdrawn.

After considering this information carefully, I don't think there was any indication Mr D was struggling financially at this point and he seemed to be managing his existing commitments well.

Zopa also considered Mr D's key expenditure based on a combination of his housing costs as declared in his application, existing credit commitments as recorded by the CRA, and modelled statistical data to estimate other living expenses. In this way, it determined he had sufficient disposable income to afford the new loan. Given he repaid loan 1 at the same time, the new loan increased his monthly repayments to Zopa by less than £100 and I've seen nothing to indicate this wasn't affordable. Zopa also says the stated purpose of the loan was to consolidate existing debt and, if Mr D used the money to pay off other debts as well as loan 1, the increase in his monthly outgoings would have been even less.

The use of modelled statistical data to estimate expenditure is an approach that's recognised by the regulator for assessing credit applications. It was clearly less thorough than an assessment of Mr D's actual expenses by reference to his bank statements for example. But in view of the information Zopa already had about his income and existing commitments, I think it was a proportionate approach in this case.

I've also considered Zopa's lending decision based on the information obtained from what I believe to have been a proportionate affordability assessment. In my view, it was entitled to believe the new loan repayments would be affordable for Mr D and that the decision to lend was a reasonable one.

I'm conscious Zopa has accepted later lending to Mr D shouldn't have taken place but that would have been based on an assessment of his circumstances when those lending decisions were made. It doesn't necessarily follow that earlier lending was also unaffordable.

It’s for these reasons that I’m not upholding Mr D’s complaint. I realise this outcome will be disappointing for him, but I’m satisfied it’s fair and reasonable in the circumstances and I hope the additional explanation is helpful.

My final decision

For the reasons I’ve explained, I’m not upholding this complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr D to accept or reject my decision before 8 July 2024.

James Biles
Ombudsman