

The complaint

Ms S is being represented by a claims manager. She's complaining about Zopa Bank Limited because she says it lent irresponsibly by providing her with a loan she couldn't afford.

What happened

In October 2021, Ms S took a loan with Zopa for £10,000 over a term of five years. The monthly repayments were £201 based on an interest rate of 7.93%. The loan was closed within a few months when it was repaid in March 2022.

In September 2022, Ms S took a second loan with Zopa for £7,000 over a term of five years. The monthly repayments were £140 based on an interest rate of 7.9%. The loan was closed when it was repaid in September 2023.

Ms S has confirmed that the loans were used to repay other outstanding debt.

Our investigator didn't conclude the complaint should be upheld. He felt Zopa was entitled to believe both loans were affordable and that it made reasonable decisions to lend.

Ms S didn't accept the investigator's assessment. She explained her circumstances at the time that meant she was struggling financially. Her representative added that she had to consolidate her debts again later on to try and make her monthly repayments more affordable and said the ease with which the Zopa loans were approved put her into further financial distress.

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. 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 Ms S, 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 each lending decision are:

- Did Zopa complete reasonable and proportionate checks to establish Ms S 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 Ms S's loan was affordable before it was approved. This included:

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

Zopa believes the checks it carried out were proportionate to the loans being given and showed the monthly repayments were affordable. I'll consider each loan in turn:

Loan 1

In making her application, Ms S declared her income was £53,000. In respect of her existing commitments, Zopa's credit check showed she had debt of around £9,000 in addition to her mortgage. It also showed she was up to date with payments on her existing arrangements and had no recent history of missed payments or defaults.

After considering this information carefully, I don't think there was any indication Ms S was struggling financially at this point. She wasn't heavily indebted compared to her declared income and seemed to be managing her existing commitments well.

This notwithstanding, Ms S was borrowing a significant amount and I think it's reasonable to expect that Zopa should have carried out an assessment of her key expenditure to ensure the monthly repayments were affordable. In the absence of this information, I've reviewed the bank statements provided by Ms S covering the period before the loan was approved.

In my view, the statements don't show any signs that Ms S was in financial difficulty. They show her wages being paid in regularly and that the account normally maintained a positive balance with minimal short-term use of the overdraft facility. Given Ms S told Zopa she was using the loan to consolidate existing debt - and she's confirmed this is indeed what she did - I'm satisfied it would have been reasonable for Zopa to believe the proposed repayments were affordable.

On balance, I'm satisfied proportionate checks would have showed the loan was affordable and that Zopa made a reasonable decision to lend.

Loan 2

In making her application, Ms S declared her income was £55,000. In respect of her existing commitments, Zopa's credit check showed she had debt of around £27,000 in addition to her mortgage. It also showed she was up to date with payments on her existing arrangements and had no recent history of missed payments or defaults.

After considering this information carefully, I don't think there was any indication Ms S was struggling financially at this point. She wasn't heavily indebted compared to her declared income and seemed to be managing her existing commitments well.

This notwithstanding, Ms S's debt had increased since the original loan and she was borrowing a significant amount so I think it's reasonable to expect that Zopa should have carried out an assessment of her key expenditure to ensure the monthly repayments were affordable. In the absence of this information, I've reviewed the bank statements provided by Ms S covering the period before the loan was approved.

In my view, the statements don't show any signs that Ms S was in financial difficulty. They show her wages being paid in regularly and that the account normally maintained a positive balance with minimal short-term use of the overdraft facility. Given Ms S told Zopa she was using the loan to consolidate existing debt - and she's confirmed this is indeed what she did - I'm satisfied it would have been reasonable for Zopa to believe the proposed repayments were affordable.

On balance, I'm satisfied proportionate checks would have showed the loan was affordable and that Zopa made a reasonable decision to lend.

In summary

It's for these reasons that I'm not upholding Ms S's complaint. I realise this outcome will be disappointing for her, particularly given the nature of her personal circumstances as she's described, 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 Ms S to accept or reject my decision before 9 September 2024.

James Biles
Ombudsman