

The complaint

Mr G complains that Zopa Bank Limited has irresponsibly lent to him.

Mr G is represented by a Claims Management Company in bringing this complaint. But for ease of reading, I'll refer to any submission and comments they have made as being made by Mr G himself.

What happened

Mr G applied for a Zopa personal loan for £5,000 which was approved by Zopa on 25 July 2023 with the purpose of debt consolidation. He says prior to his application, he had just opened three credit accounts, so Zopa's lending was irresponsible. Mr G made a complaint to Zopa.

Zopa did not uphold Mr G's complaint. They said when assessing any loan application, they consider several factors including (but not limited to) his credit profile, credit history and affordability. They said decisions were made based on information given in the application itself and obtained from various Credit Reference Agencies (CRA's) at the time of application. Mr G brought his complaint to our service.

Our investigator did not uphold Mr G's complaint. She said she didn't think Zopa irresponsibly lent to Mr G. Mr G asked for an ombudsman to review his complaint. He made a number of points. In summary, he said given that such a high amount of his salary was being used to service debt he believed Zopa should've conducted further checks to establish a true reflection of his monthly outgoings. Mr G said that his credit file shows that in the six months prior to the Zopa loan, he opened three new credit accounts, utilised credit cards for 15 cash advances and increased his limit with one creditor.

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 approve the credit for Mr G, Zopa needed to make proportionate checks to determine whether the lending was affordable and sustainable for him. There's no prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include - but are not limited to: the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances.

I've looked at what checks Zopa said they did when initially approving Mr G's application. Zopa said they looked at his credit profile, credit history, affordability, and information Mr G included on his application before approving his application. The checks showed that his payments with his existing credit commitments with other lenders were showing as up to date. So on the surface, it could appear that Mr G could manage the credit he had been approved for.

But I'm not satisfied the checks Zopa carried out here were proportionate. I say this as the application data showed Mr G told Zopa his gross income was £35,000 a year and his net monthly income was £2,295.17. The checks Zopa carried out showed that he already had accounts with revolving balances (for example credit cards) with outstanding balances of £1,702 and loan/hire purchase balances of £32,508. So his unsecured debt outstanding balances at the point they conducted their checks totalled £34,210, which was nearly 98% of his gross income.

Adding another £5,000 of borrowings had the potential to increase his borrowings to £39,210 – which would be over 100% of his net income per annum. Zopa's calculation of the existing debt repayments made by Mr G to service his existing unsecured borrowings was showing as £1,234 a month, which was almost half of his net monthly income being spent on debt repayments.

So due to the level of Mr G's debt to income and his expenditure on his existing debt, then I would have expected Zopa to make further proportionate checks to ensure the credit limit was affordable and sustainable for him.

I'm persuaded that as part of a proportionate check, Zopa should have requested information from Mr G to discuss his finances, to ensure that he had enough disposable income to be able to afford and sustain repayments to the loan. For example, they could have rung Mr G to discuss this, or as part of a proportionate check based on the level of existing borrowings he had and his reported income/debt expenditure, they could have asked Mr G to provide his bank statements or proof of income/outgoings, to see if he could afford the personal loan repayments.

So I've considered whether Zopa would have still approved the loan application if they made further checks. And I'm persuaded that they would have done – and I'll explain why. Mr G has provided his bank statements leading up to the Zopa personal loan. As part of a proportionate check, Zopa could have requested these statements to ensure Mr G had the affordability to repay the new personal loan.

I've viewed Mr G's last three statements prior to him being approved for the Zopa loan. These statements are dated 10 May 2023, 9 June 2023 and 10 July 2023. While Mr G's loan was approved after 10 July 2023, his next statement was dated in August 2023, so this would not have been available yet if Zopa had asked for Mr G's statements as part of a proportionate check.

The bank statements show that Mr G runs his account well. They show he has a £150 overdraft, but Mr G doesn't appear to enter his overdraft during these three statements. His statements actually show some months where he earns more than what he's declared to Zopa as his income. Mr G's balance is often showing as four figures, and nearly always three figures. During the statement periods I've looked at, Mr G nearly always had at least £213.05 in his account available (the amount of his monthly Zopa repayment).

The statements I've looked at don't show any new borrowings crediting his account from the new accounts Mr G says he opened. I did note that a credit for one of the new accounts (£5,000) was paid into his account on 18 July 2023, however, this is shown on his August statement, which wouldn't have been available if Zopa had asked for Mr G's last three bank statements as part of a proportionate check. So I wouldn't expect them to be aware of this new account at the time.

In addition to the bank statements Mr G provided our service, as the purpose of the loan was for debt consolidation it would be reasonable to expect Mr G to use the Zopa loan to repay some of his existing debt. Although the repayments for his new Zopa loan were £213.05 a

month, if he repaid some of his existing borrowings with the new loan, it could be possible for him to reduce his outgoings for his debt servicing. If Mr G used the loan to repay the £2,860 outstanding loan he had, this would reduce his outgoings by £208 a month. Mr G would also be able to pay off all of his revolving credit of £1,702, which Zopa had calculated repayments for these accounts as £85.10 a month.

So with the £208 a month for a loan repayment and the £85.10 a month to repay his revolving debt, his monthly repayments would reduce by £293.10. If his new Zopa monthly repayment was deducted from this figure (£293.10 - £213.05), then this would reduce Mr G's debt servicing monthly repayments by £80.50 a month, which would ensure Mr G had more disposable income than before he was accepted for the Zopa loan.

I've considered what Mr G has said about him opening three new credit accounts in the six months prior to the Zopa loan, him increasing a credit limit, and the multiple cash withdrawals he made on credit cards prior to the Zopa loan. But this information wasn't reflected on the information that the CRA's reported to Zopa. It may help to explain to Mr G that sometimes a credit file can take 4-6 weeks to reflect activity on his credit file. Only one of these new accounts was shown on the information from the CRA.

So I wouldn't expect Zopa to know Mr G had just opened three new accounts, or that he had increased his credit limit – albeit his credit limit at the time of the checks was reflected on the information from the CRA. Although Mr G may have made multiple cash withdrawals from his credit card, this is a legitimate use of the features he's entitled to use. So I can't say this fact alone would mean the Zopa lending was unaffordable or unsustainable, especially as Mr G's bank statements prior to the Zopa loan show this was generally well ran. So I can't conclude Zopa made an irresponsible decision to lend to Mr G here.

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Zopa lent irresponsibly to Mr G or otherwise treated him unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here. So it follows I don't require Zopa to do anything further.

My final decision

I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 14 August 2024.

Gregory Sloanes
Ombudsman