DRN-4933438

The complaint

Mr G, through his representative, complains that Zopa Bank Limited lent to him irresponsibly.

What happened

Mr G took two loans and this table gives some brief details.

Loan	Approved	Amount	Repayments	Term	Repaid
1	24 July 2019	£3,000 plus loan fee	£181	18 months	2 March 2020
2	22 February 2020	£4,000 plus loan fee	£183.68	24 months	23 August 2021

The lending rates were modest. For Loan 1, they were 7.9% a year fixed (11.1% APR) and so the total to pay in interest and charges was scheduled to be £258.01. For Loan 2 the rate was 3.8% a year fixed (9.9.% APR) and so the total charge for credit was scheduled to be £408.26. Mr G repaid loans 1 and 2 early. Loan 1 was repaid around the same time as Loan 2 was taken out.

After Mr G's representative had complained on his behalf, Zopa sent its final response letter (FRL) dated 15 March 2024 and gave explanations as to what it did before lending to him. It did not uphold his complaint. Mr G's representative referred his complaint to the Financial Ombudsman Service.

One of our investigators considered the complaint and did not uphold it. Mr G's representative did not agree as it said Mr G's debt to income ratio was over 50% and Zopa ought to have been prompted to carry out further checks.

The unresolved complaint was passed to me for 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.

We have set out our general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - on our website.

The rules and regulations in place required Zopa to carry out a reasonable and proportionate assessment of Mr G's ability to make the repayments under the loan agreement. This is referred to a '*reasonable creditworthiness assessment'*.

A firm must base this on *'sufficient information'*

> *'(1) of which it is aware at the time the creditworthiness assessment is carried out;*
> *(2) obtained, where appropriate, from the customer, and where necessary from a credit reference agency, and*

the information must enable the firm to carry out a reasonable creditworthiness assessment.' – Mr G Credit Sourcebook (CONC) rule 5.2A.7.

CONC contains rules and guidance in relation to the factors that should be taken into account when deciding how much information is sufficient for the purposes of the creditworthiness assessment, what information it is appropriate and proportionate to obtain and assess, and whether and how the accuracy of the information should be verified.

Zopa had to think about whether repaying the loan would be sustainable. In practice this meant that the Zopa had to ensure that making the repayments on the loan wouldn't cause Mr G undue difficulty or significant adverse consequences. That means he should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payments he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation.

In other words, it wasn't enough for Zopa to approach the loan application from the perspective of the likelihood of getting its money back. Zopa had to consider the impact of the loan repayments on Mr G. Checks also had to be *'proportionate'* to the specific circumstances of the loan application.

In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the Mr G (e.g., their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower a Mr G's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income).
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income).
- the greater the number and frequency of loans, and the longer the period during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

I've carefully considered all the arguments, evidence and information provided in this context and what this all means for Mr G's complaint. Having looked at everything I have decided to conclude the affordability checks were proportionate and the loan was not approved irresponsibly.

I have the advantage of financial information, application details, repayment records, and two sets of credit histories about Mr G. One set is the credit search results Zopa obtained before approving the loans. The other set is a more recent personal credit file report sent to us by Mr G which covers the lending period. And Mr G has sent to us his bank statements for one of his bank accounts.

Loan 1

Mr G informed Zopa that he was an owner with a mortgage and self-employed. He declared annual Gross Income of £40,000 which Zopa translated into £2,561 monthly net income.

Its CRA search for Mr G showed that he had £5,223 of total unsecured debt in June/July 2019 which was made up of a credit card with a balance on it of £36 and another credit card with a balance of £5,187 which was costing Mr G around £259 a month. Mr G had another credit card as well but it had a zero balance on an £8,000 credit card limit. It was a relatively new account.

Mr G had a £1,600 overdraft limit of which the debt was £401 at June 2019.

Mr G's joint mortgage showed on the CRA records as £810 and Zopa used £400 of that as being the cost to Mr G.

Zopa explained that it does not ask applicants to complete a full Income and Expenditure (I&E), it does ask for the rent or mortgage figure and it uses Office for National Statistics benchmarking figures to ensure the calculated Disposable Income is above the limit it sets. For both of Mr G's loans then that would have been £620.

Zopa said that Mr G's income was verified using a credit reference agency (CRA) on-line verification process. It explained that the CRA would '*review any bank accounts linked to the customer's credit file and ensure that the 12 months prior to the application the salary matches what has been declared.'*

Zopa said that its checks led it to be aware that Mr G had no adverse payment history on his credit file and the debt to income ratio and the disposable income figures were *'within acceptable limits'.*

Mr G's declared DI (disposable income) was £1,958.43 and his declared DTI (which I take to mean Debt to Income Ratio figure) was 8.590.

Zopa has explained that any applicant's Disposable Income calculation is carried out as follows: '*Monthly net income – Total Monthly repayment amount (total of Monthly Repayments due plus declared mortgage) – Declared Rent/Mortgage = Disposable Income.'*

The information Zopa has provided shows that Mr G's repayments for loan 1 were fine and had no issues. He paid it off early on 2 March 2020. It's highly likely Mr G used the Zopa loan 2 funds to do that.

Having reviewed all the information I have received from Zopa I consider that it carried out proportionate checks for loan 1 and I'd have not expected it to have done more.

I do not uphold the complaint for loan 1.

Loan 2

Mr G informed Zopa that he was an owner with a mortgage and his declared gross annual income was £35,000 which was recorded as a net monthly income was £2,277.95. The total monthly repayments on £21,742 of total debt was £1,031.35. The CRA had shown Zopa that the joint mortgage cost was £810 and so it used a monthly repayment of £400 for that cost.

Mr G had said his employment status was 'owner or partner' which Zopa would have realised from his previous application that this meant he was self-employed.

Zopa has said that the reason for Mr G applying for the loan was consolidation of existing debts.

The CRA information Zopa gathered for loan 2 was:

- Credit card with a balance of £7,882 costing him £394 a month
- Credit card with a balance of £4,764 costing £238
- Current account overdraft at £321
- Two loans with a combined outstanding value of £8,775 and combined monthly cost of £383, one of these being the first Zopa loan costing £181.

It showed that the existing Zopa loan had a balance of £2,085. Mr G was due to make a payment on loan 1 of £181 on 25 February 2020 and I have seen from records supplied by Zopa that the payment went through. And a few days after this loan 2 was approved, Mr G paid £1,919.89 towards loan 1 on 2 March 2020 to clear that balance. The new loan 2 monthly repayment was due to be about £184 and so the difference was only a few pounds each month for Zopa loan 2 when Zopa loan 1 was paid off but the term was 24 months.

Mr G's declared DI (disposable income) was £846.60 and his declared DTI (which I take to be debt to income ratio) was 62.12. This was a big difference from July 2019 only six months before this application.

So since applying for the first Zopa loan, Mr G had taken the Zopa loan 1, used a new credit card (approved May 2019) almost to its maximum limit, had got a further loan and was now applying to Zopa for more credit.

His debt level had increased fourfold. His DTI had from a figure of around 8.5 to 62. It says it does not do an I&E but gets a figure for rent and uses statistics, but where the debt level has increased so much in a very short time then I'd consider that additional checks were warranted.

Asking Mr G for further information about his financial situation may have involved him supplying copies of utility bills, copy payslips and evidence of other expenditure and credit accounts for which he was liable. A convenient method, one of several available, was to have reviewed copies of Mr G's bank account statements which usually show a wider picture of his finances and how he was managing his money.

We do have some copy bank account statements and I reviewed them to see what it is that Zopa may have seen if it had carried out some additional checks for loan 2.

Looking at the combination of statements from 2 January 2020 and the credit file its clear he received wages ranging from £700 a week to £1,000 a week.

Mr G often transferred money to another account and rarely transferred it back in. To illustrate this point, I calculated that by 28 January 2020 Mr G had transferred £1,100 to another account and had not transferred it back in.

I asked Mr G through his representative for copy bank account statements of the other account that he transferred money to. I noted that the money transferred to that other account was rarely transferred back in and so I can make a reasonable finding that the transferred money was accumulated in that other account. It may also have been spent. But Mr G did not send those copies or details of that other account.

Using Mr G's personal credit file and the bank statements I have on file, I have seen that in the lead up to applying for the Zopa Loan 2, Mr G was paying:-

- £250 each month to a credit card
- £100 each month to another card
- had an overdraft facility and was £321 in debt February 2020
- was paying a high-cost lender £202 each month
- was paying another high-cost lender £101
- was paying Zopa £181 for loan 1 (soon to be £183)
- was paying another lender £99

The total was £933 was about the same figure Zopa had recognised when doing its checks for loan 2. Its figure was monthly creditor repayments of £1,031.

So, I think that if Zopa had carried out additional checks I doubt it would have made a difference to whether it lent to Mr G at loan 2 or otherwise. I consider that the decision would have been that Mr G could afford loan 2.

I do not uphold the complaint about loan 2.

My final decision

My final decision is that I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr G to accept or reject my decision before 10 October 2024.

Rachael Williams
Ombudsman