

Complaint

Miss S has complained about a personal loan Zopa Bank Limited (“Zopa”) which she says it unfairly lent to her. She says that she was heavily in debt to other creditors and sufficient checks would have shown that her financial situation was not right for further lending.

Background

Zopa provided Miss S with a loan for £7,000.00 in February 2024. This loan had an APR of 26.4% and the total amount to be repaid of £10,798.19, which included interest fees and charges of £3,798.19, was due to be repaid in 47 monthly instalments of around £229.75.

One of our investigators reviewed what Miss S and Zopa had told us. He thought that Zopa hadn’t acted unfairly and didn’t recommend that the complaint be upheld. Miss S disagreed and asked for an ombudsman to review the complaint.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Miss S complaint.

Having carefully considered everything, I’m not persuaded to uphold Miss S’ complaint. I’ll explain why in a little more detail.

Zopa needed to take reasonable steps to ensure that it didn’t lend irresponsibly. In practice, what this means is Zopa needed to carry out proportionate checks to be able to understand whether Miss S could afford to make his repayments before lending to him.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend irresponsibly.

Zopa says it approved Miss S application after she provided details of her monthly income and some information on her expenditure. It also carried out a credit search which showed Miss S’ existing commitments were relatively well maintained at the time of the application.

In Zopa’s view all of the information it gathered showed that Miss S could comfortably afford to make the repayments she was committing to. On the other hand, Miss S has said she was already in significant debt and couldn’t afford this loan.

I've carefully thought about what Miss S and Zopa have said.

It's clear that Zopa did obtain a reasonable amount of information before it decided to proceed with Miss S application. This information does appear to suggest that Miss S had some existing debts. But I'm afraid that I don't agree that these were excessive in comparison to her income. And it is also worth noting that Miss S didn't have any significant adverse information – such as defaulted accounts or county court judgments recorded against her either.

Furthermore, I know that Miss S said that she was going to consolidate her existing borrowing with the funds from this loan. The amount being lent was enough to completely clear what Miss S owed across her six existing accounts. I don't know whether Miss S did repay her existing debts in the way she said she would, or even if she did and then went on to re-establish balances on the account that she cleared.

However, bearing in mind that this was a first consolidation loan that Zopa was providing Miss S and she didn't have a history of borrowing funds to consolidate and then returning to Zopa for further funds to clear balances on the same accounts, I think it was reasonable to rely on Miss S' assurances that the balances would be repaid with these funds.

So I'm satisfied that the proceeds of this loan could and should have been used to clear Miss S' existing credit and had payments that would reduce what she owed more rapidly, which wouldn't have happened if Miss S had made the minimum repayments on her existing revolving credit accounts. And Zopa was reasonably entitled to believe that Miss S would be left in a better position.

It's possible that if Zopa had gone into the depth of checks Miss S appears to be saying it should have – such as obtaining bank statements – it may have reached a different conclusion. For example, I've seen what Miss S has said about her gambling. But I don't think the circumstances of the lending here warranted obtaining bank statements from Miss S. So I don't see how Zopa could have know about the gambling Miss S has told us about.

Given the circumstances here, and the lack of obvious inconsistencies, I don't think that reasonable and proportionate checks would have extended into the level of checks Miss S is suggesting. As this is the case, I don't think that Zopa did anything wrong when lending to Miss S - it carried out proportionate checks and reasonably relied on what it found out which suggested the repayments were affordable.

In reaching this conclusion I've also considered whether the lending relationship between Zopa and Miss S might have been unfair to Miss S under section 140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I don't think Zopa irresponsibly lent to Miss S or otherwise treated her unfairly. And I haven't seen anything to suggest that section 140A CCA or anything else would, given the facts of this complaint, lead to a different outcome here. So I'm not upholding this complaint.

I appreciate this is likely to be very disappointing for Miss S. But I hope she'll understand the reasons for this decision and that she'll at least feel her concerns have been listened to.

Although I'm not upholding Miss S' complaint, I would remind Zopa of its continuing obligation to exercise forbearance and due consideration going forward, given what Miss S has now said about having difficulty making her payments.

My final decision

For the reasons I've explained, I'm not upholding Miss S complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 28 August 2024.

Jeshen Narayanan
Ombudsman