

The complaint

Mr B complains Plata Finance Limited (at the time trading as Zopa Limited) irresponsibly arranged a loan for him.

Mr B's complaint is being managed by a representative, but for ease I'll refer to all submissions as though they are his own.

What happened

In April 2019 Plata Finance arranged a loan of £5,000 for Mr B. The loan was repayable over a term of 36 months with equal instalments of around £200. It had a total repayable value of around £7,180 which included a borrowing fee of £460.

Mr B complained to Plata Finance in April 2023 about irresponsible lending. He said reasonable and proportionate checks would have led Plata Finance to identify the loan wasn't sustainably affordable for him.

Plata Finance didn't uphold Mr B's complaint. It said its checks were proportionate and that it went on to make a fair lending decision when bringing about this loan. Unhappy with Plata Finance's outcome Mr B referred his complaint to our Service for review.

Our investigator upheld Mr B's complaint. She reviewed the evidence and although she didn't consider Plata Finance's checks to have been proportionate; she concluded the information Plata Finance had obtained reasonably meant it shouldn't have lent. She said this because she considered it was evident Mr B was already overindebted and that any further lending wasn't sustainable.

Mr B agreed with our Investigator's outcome; Plata Finance didn't. In summary it:

- Maintained its arguments that its checks were proportionate and that it fairly brought about this loan.
- Pointed out that its income check identified Mr B had received additional income across the financial year.
- Said the loan had been repaid and settled in line with the original agreement with no apparent affordability issues or financial difficulty concerns raised by Mr B.

Plata Finance asked for an Ombudsman's review, so the complaint's been passed to me to decide.

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've set out our approach to complaints about irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website. Both Mr B and Plata Finance are aware of this approach.

At the time Plata Finance arranged this loan it was required to carry out proportionate checks. These checks needed to assess Mr B's ability to afford the loan being arranged and repay it sustainably, without causing him financial difficulties or harm.

There isn't a set list of checks a lender needs to carry out, but they should be proportionate, taking into account things like the type, amount, duration and total cost of the credit, as well as the borrower's individual circumstances. And it isn't sufficient for Plata Finance to just complete proportionate checks – it must also consider the information it obtained from these checks to go on and make a fair lending decision when arranging the loan. This includes not lending to someone in financial hardship; and ensuring repayments can be made sustainably without the need to borrow further.

Plata Finance has said its checks consisted of assessing Mr B's affordability to repay the loan, and of reviewing his existing credit commitments and current and historic management of credit. Plata Finance says its checks were proportionate and the information it obtained met its minimum lending requirements. As such it considers it made a fair lending decision when arranging this loan.

I've carefully considered Plata Finance's arguments; however, I'm not persuaded its checks were proportionate, or that it made a fair lending decision when bringing about this loan in this instance.

Plata Finance appears to have verified Mr B's income by way of a payslip which it has said showed £26,000 per year and around £1,750 per month. Mr B declared monthly housing costs of £100 and Plata Finance identified monthly repayments to existing credit commitments of around £700. Plata Finance appears to have been reasonably satisfied that Mr B would be left with around £750 disposable income each month, after making repayments to this new loan.

While this appears affordable on a strictly pounds and pence basis, Plata Finance needed to take into account all of the information it obtained, when assessing Mr B's overall position.

The credit check Plata Finance obtained showed 13 active accounts with a total outstanding debt of around £21,000. Six of the accounts, making up around £2,800 of the total debt, were running credit facilities. Plata Finance could see that Mr B had opened four accounts in the year leading up to this loan. More notably two running credit accounts had been opened within six months of this application, although Mr B's utilisation of these accounts doesn't appear to be of concern. So, it appears clear that Mr B was actively seeking and obtaining credit in the build up to this loan.

Plata Finance has the loan purpose detailed as 'Other', so it needed to proceed on the basis that this loan would be further increasing Mr B's total indebtedness, rather than being used for consolidation, for example. By arranging this loan Mr B's monthly repayment to credit would be over 50% of his declared income; and his total debt to income would be over 100%. I don't consider this to have been a sustainable position for Mr B, and I've explained why below.

As part of its response to our Investigator Plata Finance has said the payslip it obtained for income verification evidenced additional income across the financial year; around an additional £6,000. Plata Finance hasn't provided this Service with a copy of the payslip. However, even taking into account this additional income, which isn't necessarily a guarantee moving forward, Mr B's monthly repayment towards credit would still be around 50% on a monthly basis. And his total outstanding liabilities will have increased to around 90% of his income with this loan being brought about. I consider these still to be at

significant levels, and I'm still not satisfied even with an increased income that this loan would be sustainable.

An in-depth review of the credit report shows Mr B has been constantly consolidating his debts. Across the four years leading up to this loan Mr B appears to have consolidated loans on four separate occasions. Each consolidation appears to have led to higher monthly repayments with his total debt being stretched across longer repayment terms.

So, I consider this strongly suggests Mr B was already experiencing problems managing his finances when he approached Plata Finance to look to arrange this loan. His pattern of borrowing suggests he wasn't able to sustainably afford to maintain his existing credit commitments and expenses; and was needing to consolidate his debts on a relatively regular basis to keep in control of his finances. This isn't a sustainable position.

Plata Finance has said that Mr B repaid the loan in line with the contractual agreement; and at no point during the term made it aware of any financial difficulties. Repayment of the loan in line with its original term can't solely be considered an indication that the loan was sustainably affordable for Mr B; or that he wasn't experiencing financial difficulties during its term. And in any event, this is evidence that Plata Finance is relying on after the lending event where it made its decision to lend.

Given the pattern of historic and current lending, as well as the significant level of debt Mr B would now have, and the significant level of monthly repayment towards credit commitments; I'm satisfied Plata Finance ought reasonably to have identified through its own checks that this loan wasn't sustainable for Mr B, and that he therefore wasn't a suitable candidate to arrange finance for.

It therefore follows I don't consider Plata Finance made a fair lending decision when bringing about this loan; and as such it needs to take action to fairly resolve Mr B's complaint.

I've considered whether Plata Finance has acted unfairly or unreasonably in any other way, including whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974.

However, I'm satisfied the redress I have directed below results in fair compensation for Mr B in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right

Mr B's had the use of the funds from this loan, which he's now repaid in full, so I consider it's fair that he repays the capital amount arranged. But Mr B has paid interest and fees on a loan that I've found shouldn't have been brought about. So, Mr B has lost out and Plata Finance Limited need to put things right by taking the following action:

- Refund all interest, fees and charges Mr B paid on this loan.
- Add 8% simple interest per year* on these refunded payments, calculated from the date they were paid by Mr B to the date the complaint is settled.
- Remove any adverse information recorded on Mr B's credit file as a result of this loan.

*HM Revenue & Customs requires Plata Finance Limited to deduct tax from this interest. It should give Mr B a certificate showing how much tax it's deducted if he asks for one.

My final decision

I'm upholding Mr B's complaint about Plata Finance Limited and require it to take the above action in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 5 September 2024.

Richard Turner
Ombudsman