

The complaint

Ms G complains that Zopa Bank Limited irresponsibly lent to her.

What happened

Ms G was approved for a Zopa personal loan in April 2023 for £25,000. She was approved for another Zopa personal loan in November 2023 for £10,000. Ms G says Zopa irresponsibly lent to her as she had more outgoings than income, and the debt she had wasn't sustainable. Ms G made a complaint to Zopa.

Zopa did not uphold Ms G's complaint. They said when assessing any loan application, they consider several factors including (but not limited to) credit profile, credit history and affordability. They said decisions are made based on information given in the application itself and obtained from various Credit Reference Agencies (CRA's). Zopa said they were unable to agree that the decision to approve the loans were irresponsible. Ms G brought her complaint to our service.

Our investigator did not uphold Ms G's complaint. She said Zopa completed reasonable and proportionate checks based on what they knew about Ms G at the point of each lending decision. She said she wasn't convinced that there would have been anything to highlight the fact the loans wouldn't be sustainable. So, she couldn't say they acted unreasonably or irresponsibly in their decision to enter the loan agreements.

Ms G asked for an ombudsman to review her complaint. She said for the size of the loans, and the very large amount of debt she had already, this should have meant Zopa looked more closely at her income and expenditure. She said she doesn't believe they did this. Ms G provided our service with payslips prior to the original loan (January-March 2023).

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 Ms G, Zopa needed to make proportionate checks to determine whether the lending was affordable and sustainable for her. 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.

£25,000 loan approved in April 2023

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

Ms G did have unsecured debt which the CRA reported of £79,564, which was fairly high compared to her declared gross annual income of £95,000 (which was calculated to be £5,259.92 net a month). The majority of the unsecured borrowings were loans, which Zopa were able to see the monthly repayments being reported by the CRA. But she also had a number of credit cards.

Although Ms G had a number of credit cards, with some of them having high credit limits, the data shows she wasn't using all of the credit limit available to her, which if Ms G was in financial difficulty prior to the Zopa loan, this would have been an indication of this. Zopa did take the balances into account when calculating reasonable monthly repayments that Ms G would need to take to service this debt.

The data from the CRA shows Ms G wasn't in arrears on any of her accounts, there were no County Court Judgements (CCJ's) or defaults registered, and her accounts had been paid on time for a number of years. The data from the CRA shows Ms G opened only one account in the 12 months prior to the Zopa loan being approved, so it didn't appear she was hungry for credit and constantly opening new accounts.

But based on the size of the loan and the level of debt Ms G had, I would expect Zopa to take further steps to verify her income. Zopa did do this by verifying this with the CRA they used. This is in line with what I would expect them to do. Although Ms G has provided her payslips which show considerably less income than what was declared, I can't hold Zopa responsible for any incorrect information Ms G gave them when they had taken proportionate steps to verify her income. It would not have been proportionate for Zopa to ask for her payslips or bank statements when the checks verified the income, and there were no signs any lending would be unaffordable.

In addition to this, Ms G had stated the loan purpose was for debt consolidation, so it would be reasonable for Zopa to expect that Ms G would be able to use some or all of the loan to repay existing debt, which could reduce her outgoings. So based on all of the above, I'm satisfied that Zopa's checks were proportionate, and they made a fair lending decision to approve the £25,000 loan.

£10,000 loan approved in November 2023

I've looked at what checks Zopa said they did when initially approving Ms G's second loan application. Zopa said they looked at her credit profile, credit history, affordability, and information Ms G included on her application before approving her application. The checks showed that her payments with her existing credit commitments with other lenders were showing as up to date. So on the surface, it could appear that Ms G could manage the credit she had in place.

Ms G did have unsecured debt which the CRA reported of £87,609, which was around £8,000 higher than when she was approved for the last Zopa loan seven months earlier. But as the last loan was for £25,000, this suggests Ms G did actually use the majority of the loan to repay existing debt she had (if she hadn't of done this, then her outstanding balances would be considerably higher with the new £25,000 loan being added to her existing debt). Ms G declared her gross annual income to be £110,000 (an increase of £15,000 as opposed to the increase of the extra debt of around £8,000). The £110,000 gross salary was calculated as £5,802.63 net income a month.

Again, the majority of the unsecured borrowings were loans, which Zopa were able to see the monthly repayments being reported by the CRA. They would also have been able to see

how Ms G managed her Zopa loan since it was opened. And the data shows Ms G always made her repayments on time.

Ms G still had a number of credit cards, with some of them having high credit limits, the data shows she wasn't using all of the credit limit available to her, which if Ms G was in financial difficulty prior to the Zopa loan, this would have been an indication of this. Zopa did take the balances into account when calculating reasonable monthly repayments that Ms G would need to take to service this debt.

The data from the CRA shows again that Ms G wasn't in arrears on any of her accounts, there were no CCJ's or defaults registered, and her accounts had been paid on time for a number of years. The data from the CRA shows Ms G opened only one account in the 12 months prior to the Zopa loan being approved, which was the £25,000 Zopa loan. So it didn't appear she was hungry for credit and constantly opening new accounts. The data showed she had closed five accounts since the previous Zopa loan had been approved.

But based on the size of the loan and the level of debt Ms G had, I would expect Zopa to take further steps to verify her income. Zopa did do this by verifying this with the CRA they used. This is in line with what I would expect them to do. Ms G hasn't provided her payslips from around this time, but I don't require her to, as it wouldn't have been proportionate for Zopa to ask her for these.

So again, I can't hold Zopa responsible for any incorrect information Ms G gave them when they had taken proportionate steps to verify her income. It would not have been proportionate for Zopa to ask for her payslips or bank statements when the checks verified the income, and there were no signs any lending would be unaffordable.

In addition to this, Ms G had stated the loan purpose was for debt consolidation, so it would be reasonable for Zopa to expect that Ms G would be able to use some or all of the loan to repay existing debt, which could reduce her outgoings. So based on all of the above, I'm satisfied that Zopa's checks were proportionate, and they made a fair lending decision to approve the £10,000 loan.

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 Ms G or otherwise treated her 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 Ms G to accept or reject my decision before 20 September 2024.

Gregory Sloanes
Ombudsman