

The complaint

Mr M complains that Zopa Bank Limited have irresponsibly lent to him.

What happened

Mr M was approved for a Zopa credit card in November 2022 with a £1,000 credit limit. He says it was irresponsible for Zopa to approve his application based on his credit history, and the repayments were unaffordable for him, with the interest being high. Mr M made a complaint to Zopa.

Zopa did not uphold Mr M's complaint. They said to ensure Zopa doesn't irresponsibly lend, they need to carry out proportionate checks to understand whether he can afford to repay the credit card repayments. They said he declared an annual salary of £32,000. Zopa said the recent accounts on his credit file show these to be well maintained. They said Mr M mentioned in his complaint that he had missed payments as well as a recent default, but they were unable to see this on his credit file.

Zopa said interest rates and how interest would be charged was included on all credit card statements, and there was also a section on their website in relation to interest, fees and charges. Mr M brought his complaint to our service.

Our investigator did not uphold Mr M's complaint. She said the credit check that Zopa completed showed that at the time of his application he had total active unsecured debt of around £3,500, which was reasonably modest in comparison to his stated income. She said his credit cards were within their available credit limits – the total balance across both was £1,734 with total available credit limits of £3,150. Our investigator said the credit check showed that all accounts were up to date with no adverse markers or missed repayments.

Our investigator said that Zopa made clear the fees and charges that would be applied to the credit card and that he would have had to agree to the terms and conditions before being approved for the credit card. So she couldn't reasonably say that Zopa acted unfairly in regards to this.

Mr M asked for an ombudsman to review his complaint. He made a number of points. In summary, he said at the time of applying for the credit he was in severe debt. He said he was paying for a joint mortgage by himself each month for over £700 as well as monthly outgoings. Mr M said he was borrowing, then paying off credit, then applying for more credit, which became a cycle. He said Zopa should have been able to view cash being taken out from credit cards. He said he had only just closed a Zopa credit card only four months prior to applying for a new Zopa credit card. Mr M said that the mortgage payments were increasing by the month. Mr M sent us his bank statements prior to the application.

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.

Firstly, I'm aware that I've only summarised Mr M's complaint points. And I'm not going to respond to every single point made by him. No discourtesy is intended by this. It simply reflects the informal nature of our service as a free alternative to the courts. If there's something I haven't mentioned, it isn't because I've ignored it. I haven't. I'm satisfied I don't need to comment on every individual point to be able to reach what I think is a fair outcome.

Before agreeing to approve or increase the credit available to Mr M, Zopa needed to make proportionate checks to determine whether the credit 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 listed below what checks Zopa have done and whether I'm persuaded these checks were proportionate.

I've looked at what checks Zopa said they did when initially approving Mr M's application. Zopa said they looked at information provided by a credit reference agency (CRA) and information that Mr M had provided before approving his application.

The information showed that while Mr M had total active outstanding balances being reported from the CRA of around £3,500, he had a declared an income of £32,000. So it did not appear that Mr M was in severe debt. But that's not all Zopa's data showed. The data also showed while Mr M had adverse information on his credit file previously, these accounts had been settled.

There were no accounts in arrears at the point of Mr M's application for the Zopa credit card. Although Mr M had taken out a number of credit agreements in the 12 months prior to the Zopa credit card (it appears ten accounts), he had also closed/settled nine accounts in the same timeframe, so it would appear Mr M was reorganising his finances in the 12 months leading up to the Zopa credit card application.

The information from the CRA shows one account had been opened by Mr M in 2022, prior to the Zopa account being approved, and this had already been settled in October 2022, the month before Mr M was approved for the Zopa account. He had settled five accounts in 2022 with three of these being four months or less prior to the approval of the Zopa account. This suggests Mr M was managing his finances and he wasn't reliant on this credit with other lenders, as otherwise he could have been utilising this credit. So it didn't appear he was stuck in a borrowing cycle when he had closed more accounts than he opened in the four months leading up to the acceptance of his application.

There were no signs of financial difficulties. I say this because the CRA reported his accounts had no arrears, and Mr M was not utilising a substantial amount of his credit limits available to him (he had utilised around 55% of his total credit limits). I can confirm to Mr M that the CRA did not report cash advances to Zopa, so Zopa would be unaware of if Mr M was using this facility on his credit cards. The CRA did not report an overdraft on Mr M's bank account, or any adverse information to Zopa. So if Mr M was having financial difficulties prior to the approval of the Zopa account, I would expect him to be utilising nearly all of his available credit, or him missing/being late with payments.

Zopa are not required prior to lending to verify Mr M's outgoings. Especially when there were no signs of the checks showing financial difficulties. I've considered what Mr M has said about there being a typo in his mortgage payment, and he paid the joint mortgage solely. Mr M's credit file does show the joint mortgage, so Zopa were aware the mortgage was joint. The checks showed a monthly payment of £586, and not over £700.

It would be Mr M's responsibility to accurately input his expenditure correctly on his application. I can see he entered £210 for housing costs. So I'm not persuaded that Zopa should have been aware this was a typo. And so I wouldn't have expected them to make further checks based on this, when this would not appear unusual for a person with a joint mortgage where different people can pay different amounts towards an outgoing. It would not be proportionate to expect Zopa to be aware of when any mortgage deal Mr M was on would expire, or whether costs would increase in the future. They acted upon the information that the CRA provided to them about the mortgage payments as this showed "586 over 359M" (£586 a month over 359 months).

I've considered what Mr M has said about him only just closing a Zopa credit card only four months prior to applying for a new Zopa credit card. But I'm not persuaded that this means the new lending would be unaffordable or unsustainable in its own right. I say this because Zopa would have a history of how Mr M managed this account. I can see from the checks from the CRA that Mr M did not miss any payments on this account, and there was no adverse information recorded on his credit file from this account.

Although Mr M has provided us with his bank statements, a lender is not required to always request these from a potential customer prior to lending. Based on the checks Zopa completed, it would not have been proportionate for them to do so based on what their checks showed. So I'm unable to conclude they made an unfair lending decision. I'm persuaded that Zopa's checks were proportionate, and they made a fair lending decision here.

I've considered what Mr M has said about the interest and fees charged by Zopa. These would have been shown on his credit card agreement and they would have been displayed on his credit card statements, so he will have been fully informed of these. So I can't conclude that Zopa have acted outside of what was agreed. But if Mr M is experiencing financial difficulties, I would urge him to contact Zopa directly, so they can see how they can assist him.

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 M or otherwise treated him unfairly. I haven't seen anything to suggest that Section 140A or anything else 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 M to accept or reject my decision before 17 September 2024.

Gregory Sloanes
Ombudsman