Financial Ombudsman Service

The complaint

Mr T says Zopa Bank Limited irresponsibly lent to him.

What happened

Mr T took out a 24-month loan for £2,500 in September 2024. The monthly repayments were £243.21 and the total repayable was £2,918.55.

Mr T says Zopa's checks were inadequate: a thorough underwriting exercise would have shown he was a compulsive gambler and unemployed. He lost all the money within days of receiving it and this has impacted his mental health. He has no way to repay the debt.

Zopa says it acted fairly in approving the loan for Mr T.

Our investigator did not uphold the complaint. He said Zopa's checks were proportionate and it made a fair lending decision.

Mr T disagreed and asked for an ombudsman's review. He said the information provided to Zopa was not correct, he hadn't been in full-time employment since April 2024 and had it carried out better checks it would have learnt this.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The rules and regulations when Zopa arranged the loan for Mr T required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check. The checks also had to be borrower-focused. So Zopa had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr T. In other words, it wasn't enough for Zopa to simply think about the likelihood of it getting its money back, it had to consider the impact of the repayments on Mr T.

Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount, type and cost of credit they have applied for.

In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);

- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);

- the longer the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. There was however no set list of checks Zopa had to complete.

I've kept all of this in mind when thinking about whether Zopa did what it needed to before agreeing to lend to Mr T. So to reach my conclusion I have considered the following questions:

- did Zopa complete reasonable and proportionate checks when assessing Mr T's loan application to satisfy itself that he would be able to repay the loan in a sustainable way?

- if not, what would reasonable and proportionate checks have shown?

- did Zopa make a fair lending decision?

- did Zopa act unfairly or unreasonably in some other way?

I can see Zopa asked for some information from Mr T before it approved the loan. It asked for details of his employment and income. It verified his income externally. It asked for a recent bank statement as proof of identification and address. It asked about his housing costs. It also checked his credit file to understand his credit history and existing credit commitments. It asked about the purpose of the loan which was a car. From these checks combined Zopa concluded the loan would be sustainably affordable for Mr T.

Given the term and the value of the loan (and its monthly repayments relative to Mr T's verified income) I think these checks were proportionate, and that Zopa made a fair lending decision. I'll explain why.

Mr T declared he was in full time employment with an annual salary of £40,000, This equated to a net monthly income of £2,573.29. Zopa checked this via one of the credit reference agencies that verified it against the last 12 months of Mr T's current account turnover. The credit check showed Mr T had no debt when he applied and there was no adverse data recorded against him. I note he had taken out six payday loans in late 2018/early 2019. These had all been settled in full and given this application was made in September 2024 I don't think they ought to have concerned Zopa. The credit check did not show any evidence of financial difficulties. As well as no active loans or credit cards, it showed Mr T had an overdraft facility on both of his current accounts but he was not using either of these lines of credit.

Zopa asked for a bank statement for proof of id and address. It notes in its submission to this service that the statement does not show any gambling. It acknowledges there was no salary paid into the account but that Mr T had two current accounts, so it could easily have been crediting the other account. As Zopa had successfully completed external verification of Mr T's declared income I think this is a reasonable assumption.

Mr T says had Zopa asked for more bank statements it would have seen had no salary since April 2024, but there is no set list of checks a lender has to complete.

In summary, based on the information it gathered – which I find to be proportionate for the loan in question – I have seen no reason to concluded Zopa was wrong to lend to Mr T. To be clear, I am not disputing his testimony that his gambling was problematic but I do not think it would have been proportionate here for Zopa to carry out the level of financial review needed to discover this.

I am sorry he has struggled in this way and that it has created debt issues for him. I hope he now has the support he needs. If not, he could contact Step Change on 0800 138 1111 or National Debtline on 0808 808 4000 for advice about financial difficulties. And if gambling is still problematic for him he could contact GamCare on 0808 802 0133.

As Mr T still has an outstanding balance on his loan, I would urge him to contact Zopa to discuss next steps and to allow it to understand his current financial position. I would remind Zopa of its obligation to treat Mr T fairly, and with forbearance and due consideration.

Finally, I've also considered whether the relationship might have been unfair under Section140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Zopa lent irresponsibly to Mr T or otherwise treated him 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.

My final decision

I am not upholding Mr T's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 23 December 2024.

Rebecca Connelley
Ombudsman