

Complaint

Ms R has complained about a credit card Zopa Bank Limited (“Zopa”) provided to her. She says the credit card as well as the limit increase were irresponsibly provided.

Background

Zopa provided Ms R with a credit card with an initial limit of £400 in December 2021. Ms R was then offered a credit limit increase to £700 in May 2023.

One of our investigators reviewed what Ms R and Zopa had told us. And he thought Zopa hadn’t done anything wrong or treated Ms R unfairly in relation to providing the credit card or increasing the credit limit. So he didn’t recommend that Ms R’s complaint be upheld.

Ms R disagreed and asked for an ombudsman to look at 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 Ms R’s complaint.

Having carefully considered everything, I’ve decided not to uphold Ms R’s complaint. I’ll explain why in a little more detail.

Zopa needed to make sure it didn’t lend irresponsibly. In practice, what this means is Zopa needed to carry out proportionate checks to be able to understand whether Ms R could afford to repay any credit it provided.

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 to a customer irresponsibly.

Zopa says it initially agreed to Ms R’s application after it obtained information on her income and carried out a credit search. And the information obtained indicated that Ms R would be able to make the low monthly repayments due for this credit card. Due to Ms R’s account being relatively well managed she was then offered a credit limit increase to £700.

On the other hand Ms R says that she shouldn’t have been lent to.

I've considered what the parties have said.

What's important to note is that Ms R was provided with a revolving credit facility rather than a loan. This means that to start with Zopa was required to understand whether a credit limit of £400 could be repaid within a reasonable period of time, rather than all in one go. And a credit limit of £400 required relatively small monthly payments in order to clear the full amount owed within a reasonable period of time.

Ms R declared that she was full time employed and in receipt of an annual income of £19,500.00. Zopa cross-checked Ms R's declaration against information from credit reference agencies on the amount of funds that she was receiving into her main bank account each month. This suggested that Ms R's declaration wasn't unreasonable or implausible. So I think that Zopa was entitled to rely on it.

Zopa's credit check did indicate that Ms R had had previous difficulties with credit in the form of defaults. But it's fair to say that this was in the main historic and I don't think that this means that Ms R shouldn't have been lent to in the way that she suggests. This is particularly as Ms R's active commitments weren't high.

In these circumstances, I don't think that it was unreasonable for Zopa to rely on what Ms R said about her income and what had in relation to her expenditure, particularly in light of the low monthly repayments that would be required to repay £400 within a reasonable period of time.

As this is the case, I'm satisfied that the checks carried out before Ms R was initially provided with her credit card were reasonable and proportionate and Zopa didn't act unfairly when opening Ms R's account.

For the credit limit increase, it appears as though Zopa relied on Ms R's account having been managed well in the period since it had been opened. In the first instance I should make it clear that it isn't immediately apparent to me how it is automatically the case that a borrower can afford a higher amount of credit simply because they might not have defaulted on a lower amount.

It seems to me that this logic would suggest that credit limit increases should continue to be granted until after a customer has struggled to make repayments – even though the regulations require a lender to carry out reasonable enquiries to ensure that this doesn't happen.

Leaving aside my concerns regarding the justification for the credit limit increase, in my view, what's important here is that Ms R wasn't just staying towards the top end of her credit limit. And she was regularly making payments sufficient to clear not only the £400 limit she already had but arguably a limit of £700 within a reasonable period of time in the event that she had to. For example, I can see that she had brought her balance to zero on at least one occasion.

For the sake of completeness, I'd also add that even if I were to conclude that the checks carried out weren't sufficient, I don't think that Zopa would have made a different decision even if it had asked Ms R for more information. I say this because at the absolute most it could be said that Zopa ought to have asked Ms R more about her actual living costs rather than relied on estimates (or assumptions) of this.

However, having reviewed the information Ms R has provided, I've not been persuaded that Zopa using Ms R's committed living expenses and actual living costs would have seen it turning down Ms R's initial application or decide against offering the limit increase.

From what I've seen, when Ms R's regular living expenses and existing credit commitments were deducted from her income, she does appear to have the funds, at the time at least, to sustainably make the repayments needed to clear the amount she could owe, as a result of the credit card and limit increase, within a reasonable period.

Overall and having carefully considered everything, I've not been persuaded that proportionate checks would have shown that Zopa that it shouldn't have provided this card, or the subsequent credit limit increase to Ms R.

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

However, for the reasons I've explained, I've not been persuaded that Zopa irresponsibly lent to Ms R or otherwise treated her unfairly in relation to this matter. 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.

So overall while I can understand Ms R's sentiments, I don't think that Zopa treated Ms R unfairly or unreasonably when providing her with her credit card or subsequently increasing her credit limit. And I'm not upholding Ms R's complaint. I appreciate this will be very disappointing for Ms R. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Ms R's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms R to accept or reject my decision before 12 February 2025.

Jeshen Narayanan
Ombudsman