

The complaint

Mr W has complained that Zopa Bank Limited (“Zopa”) irresponsibly provided a loan to him which he couldn’t afford to repay.

What happened

Zopa advanced Mr W a loan of £8,000 in November 2023. The loan had an APR of 13.9% and Mr W had to pay £2,311.37 worth of interest. Had Mr W repaid the loan in line with the credit agreement he would’ve repaid a total of £10,311.37. Mr W was due to make 48 monthly repayments of £214.82. Based on the statement of account provided by Zopa an outstanding balance remains due.

Zopa has said it used a number of third-party reports to show the loan was affordable for Mr W. However, Zopa has also explained that following Mr W’s complaint it conducted another affordability assessment, and it was still satisfied the loan was affordable.

Unhappy with this response, Mr W referred the complaint to the Financial Ombudsman where it was considered by an investigator. The investigator said Zopa was entitled to rely on their income check and the credit file information it received. But had it carried out further checks it would’ve still lent to Mr W.

Mr W didn’t agree with the investigator’s findings, saying he had £28,000 of existing debt, including loans, credit cards and overdrafts. There was also clear evidence of gambling. Mr W also said that he’d taken a large loan around the time this was taken, and the other lender has accepted something went wrong. The investigator also conclude Mr W only had £100 to live off per month which isn’t believable.

These comments didn’t change the investigator’s mind and so the complaint was passed to me. I then issued my provisional decision explaining the reasons why I was intending to uphold Mr W’s complaint about Zopa’s lending decision.

Both parties were asked to provide any further comments or evidence as soon as possible, but in any event, no later than 5 March 2025.

Zopa has accepted the findings that I’ve reached and didn’t provide any further comments. Mr W was content – in part with the outcome to uphold the complaint about the lending decision. However, Mr W has said that no consideration has been made on the mental impact Zopa’s actions has had on him.

Mr W has said, Zopa has been aware of his situation for a number of months and has taken no steps to help him.

A copy of the provisional findings follows this in smaller font and forms part of this final decision.

What I said in my provisional decision:

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 general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website. And I've used this approach to help me decide Mr W's complaint.

Mr W is quite right to say that before a loan is granted – or any form of credit a lender needs to carry out proportionate checks – which in effect meant Zopa had to understand whether Mr W could afford to repay any credit Zopa 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 checks to be less thorough – in terms of how much information is gathered and what is done to verify it – in the early stages of a lending relationship.

Before the loan was granted Zopa says that it took account of what Mr W told it about his income and then used the results from the credit search and statistical data to work out whether Mr W could afford the repayments.

Whereas, Mr W says that Zopa didn't conduct adequate checks and had it done so it would've seen his overall indebtedness had increased over the last year. Had Zopa reviewed his bank statements it wouldn't have advanced the loan.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr W's complaint. Having done so, I'm intending to uphold Mr W's complaint and I've explained why below.

Before the loan was approved, Zopa asked Mr W for details of his employment and his income. Mr W declared he worked full time and received an annual gross income of £31,000.

Zopa didn't just rely on what Mr W had declared, instead, it used a tool provided by a credit reference agency to cross reference the information. Having done this, for the purposes of the affordability assessment, it used a net income figure of £2,072.

Zopa carried out a credit search before it lent and it has provided a copy of its results. It knew that Mr W had two loans outstanding which totalled just under £12,000 and this was costing him £391 per month to repay.

He also had nearly £16,500 of revolving credit – such as credit cards and mail order accounts and this was costing him £827.50 per month – based on a 5% repayment amount. Overall, Zopa calculated that Mr W had existing monthly credit commitments of £1,124.50. All of Mr W's accounts had been paid as expected, with no defaults, other types of insolvencies or missed payment markers being reported. It would've been reasonable for Zopa to conclude that Mr W wasn't having or likely having financial difficulties – based on the credit file results.

Zopa accepts that for living costs it only asked about Mr W's mortgage payment. Mr W declared he had costs relating to this of £227 per month. Zopa knew from the credit file that the total mortgage cost was £427 so I don't think it was unreasonable or unfair to go with the figure provided by Mr W considering that Zopa knew the mortgage was joint. However, Zopa does say that as part of its affordability assessment it took account of statistical data from the Office of National Statistics (ONS).

In addition, Mr W says the loan was going to be taken for debt consolidation purposes. So, it wasn't the case that Zopa was lending Mr W money to get further into debt – instead he'd use this money to repay some of his existing creditors. And to be clear, Mr W couldn't clear all of his creditors because he owed over £28,000 and yet was only in a position to borrow £8,000.

Zopa didn't take details of which existing accounts would be repaid using its loan. But for a first loan I do think it was just about reasonable for it to believe that Mr W would use the loan for its intended purposes.

Looking at what debt Mr W did have – and how much these were already costing him per month, had Mr W used the Zopa loan for the intended purpose its possible he would've been able to reduce his monthly commitments by around £200 per month.

So, even best-case scenario for Mr W, with his Zopa loan and his existing creditors, would likely still have credit commitments of around £1,200 per month – which is still over 50% of his checked income. Coupled with his mortgage payment of £220 left £652 per month to cover all the other costs Mr W would likely have – such as his share of the council tax, utilities, insurance and any other costs he may have had.

Its arguable, given that Zopa has explained that at the time it would've used ONS data – and attributed £725 or £605 per month towards his other living costs – which had it done so, clearly the loan wasn't affordable. So given, what I consider to be tight affordability based on using ONS data I think it would've been prudent of Zopa to have taken steps to check what Mr W's other non-discretionary expenditure was each month. I've therefore concluded Zopa's checks were neither proportionate nor reasonable.

Zopa could've gone about looking at Mr W's expenditure a number of ways, it could've asked for evidence from Mr W about his bills or requested any other documentation it felt was reasonable. Or, as I've done here used a copy of his bank statements to work out what his living costs likely were.

I accept that had Zopa conducted proportionate checks it may not have seen all the information that I have seen. But, in the absence of Zopa conducting a proportionate check I do think it's entirely fair and reasonable to consider the bank statement that I now have access to.

I also want to be clear that solely because I think further checks were needed that doesn't on its own mean Mr W's complaint should be upheld. After all, if further checks would've demonstrated to Zopa that Mr W could afford his repayments then it wouldn't have been unreasonable to lend to him.

I also don't think for a first loan that there was a need for a forensic review of the statements, so that doesn't mean Zopa had to carry out a full verification of Mr W's circumstances, after all it was already aware of his checked income and it had a good idea of his existing credit commitments that it received from the credit reference agency.

A review of his bank statements showed that Mr W was paying for utilities, council tax, TV subscription services, car tax, accounts fees and other direct debits that wouldn't have been covered by the credit file. All of these together come to around £550 per month. So just with his mortgage payments, existing credit commitments and non-discretionary spending that doesn't include things such as food, petrol or any other costs that he may have had totalled nearly £2,000 per month.

In my view, Zopa, had it carried out a proportionate check would've likely concluded that given there were other costs that Mr W would likely incur during the month, such as petrol and food costs and the fact that this loan was due to run for a period of four years. Means a closer look at Mr W's living costs or using the ONS data that Zopa says it would've taken on board showed the loan to not be sustainably affordable. I am therefore intending to uphold Mr W's complaint.

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.

Neither party has disagreed with the findings I made to uphold the complaint about unaffordable lending. And so, I see no reason to revisit this part of the complaint and I've outlined below what Zopa needs to do in order to put things right for Mr W at the end of this decision.

I'm sorry to hear about the impact repaying this loan and dealing with Zopa has had on Mr W and his health. I've thought about what Mr W has said about the lack of support offered by Zopa despite knowing about his health and financial challenges.

Firstly, it's worth saying that this wasn't mentioned as part of his original complaint to Zopa in July 2024 – the only issues raised by Mr W were asking for the payment date to change and then raising an irresponsible lending complaint – about Zopa's decision to provide the loan.

This issue also wasn't raised as part of Mr W's submissions to the Financial Ombudsman or in response to the investigator's findings.

But I can see in the final response that Zopa directed Mr W towards places he can receive further help and support if needed. It also provided the contact details for Zopa's support team to discuss his finances further. I think this was a fair and reasonable, course of action for Zopa to have taken at the time.

Mr W has also said that this has had an impact on his credit file, I've set out below what Zopa needs to do about this. But it's worth saying here that as soon as payments are made – which depart from the payment schedule set out in the credit agreement then adverse information will be reported to the credit reference agencies. But having looked at the statement of account provide by Zopa – at least until October 2024, payments have been made as expected.

Having looked at the statement of account, it does appear that even after the interest, fees and charges are removed, an outstanding balance is still going to be owed by Mr W. Therefore, I would remind Zopa of its obligation when working with Mr W – to treat him fairly and with forbearance with any help that he may need.

Moving forward, should Mr W accept the final decision and is then unhappy with the actions of Zopa in repaying any balance that may be due he is of course free to raise any concerns with Zopa. Before, potentially bringing any complaint to the Financial Ombudsman Service's attention.

Finally, I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Mr W 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

Having thought about everything, Zopa should put things right for Mr W by:

- Zopa should remove all interest, fees and charges applied to Mr W's loan from the outset. The payments Mr W has made, should be deducted from the new starting balance – the £8,000.00 originally lent. If Mr W has already paid Zopa more than £8,000.00 then it should treat any extra as overpayments. And any overpayments should be refunded to Mr W;
- Zopa should add interest at 8% per year simple on any overpayments, if any, from the date they were made by Mr W to the date of settlement†

- However, if no outstanding balance remains after all adjustments have been made, all adverse information Zopa has recorded about this loan should be removed from Mr W's credit file.
- As an outstanding balance is still likely to remain due both Mr W and Zopa should try and agree a mutually agreeable way forward. And I would remind Zopa of its obligation to treat Mr W fairly and with forbearance – if necessary.

† HM Revenue & Customs requires Zopa to take off tax from this interest. Zopa must give Mr W a certificate showing how much tax it has taken off if he asks for one.

My final decision

For the reasons I've explained above and in the provisional decision, I'm upholding Mr W's complaint.

Zopa Bank Limited should put things right for Mr W as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 11 April 2025.

Robert Walker
Ombudsman