

## **The complaint**

Mr M complains Zopa Bank Ltd ('Zopa') irresponsibly lent to him.

## **What happened**

Zopa provided Mr M with a single loan in September 2020. The loan was for £3,000 and was due to be repaid by 36 monthly payments of £111.44. The total amount to be repaid by the end of the loan term, including interest, was £4,011.87.

In October 2024 Mr M – via a professional representative (PR) – complained to Zopa about its decision to lend to him.

In November 2024 Zopa issued a final response in which it did not uphold Mr M's complaint. Unhappy with this response, PR on behalf of Mr M referred the complaint to our service.

One of our investigators reviewed Mr M's complaint. But they didn't think Zopa had treated Mr M unfairly, and so they didn't recommend that the complaint be upheld.

PR on behalf of Mr M didn't agree with the investigator's findings and so the complaint was passed to me to review afresh.

## **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.

The Financial Ombudsman Service has set out its general approach to complaints about irresponsible and unaffordable lending on its website. And, having taken this into account along with everything else I need to consider, I don't think it would be fair or reasonable to uphold this complaint. I recognise this will be disappointing for Mr M. I hope my explanation helps him to understand why I've come to this conclusion.

Zopa needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr M could repay the loan repayments when they fell due and without the need to borrow further. These checks weren't prescriptive, but could take into account a number of different things such as how much was being lent, the repayment amounts and the consumer's income and expenditure.

So, in keeping with the information on the Financial Ombudsman Service's website, I think there are a number of overarching questions I need to consider when deciding a fair and reasonable outcome given the circumstances of this complaint:

1. Did Zopa carry out reasonable and proportionate checks to satisfy itself that Mr M was likely to have been able to repay the borrowing in a sustainable way?

i. If Zopa carried out such checks, did it lend to Mr M responsibly using the information it had?

Or

ii. If Zopa didn't carry out such checks, would appropriate checks have demonstrated that Mr M was unlikely to have been able to repay the borrowing in a sustainable way?

2. If relevant, did Mr M lose out as a result of Zopa's decision to lend to him?

3. Did Zopa act unfairly or unreasonably in some other way?

Did Zopa carry out reasonable and proportionate checks?

There are many factors that could be relevant when determining how detailed proportionate checks should have been. And while much will depend on the circumstances in question, the more obvious factors include – though aren't necessarily limited to:

- The type of credit Mr M was applying for along with the size, length and cost of the borrowing; and
- Mr M's financial circumstances – which included his financial history and outlook along with his situation as it was, including signs of vulnerability and/or financial difficulty.

And generally speaking, I think reasonable and proportionate checks ought to have been more thorough:

- The lower an applicant's income because it could be more difficult to make the repayments as a result;
- The higher the amount repayable because it could be more difficult to meet a higher repayment, especially from a lower level of income; and
- The longer the loan term, because the total cost of the credit was likely to have been greater given the longer time over which repayments have to be made.

As a result, the circumstances in which it was reasonable to conclude that a less detailed affordability assessment was proportionate strike me as being more likely to be limited to applicants whose financial situation was stable and whose borrowing was relatively insignificant and short-lived – especially in the early stages of a lending relationship.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr M's complaint.

Prior to agreeing to lend, Mr M was asked to provide details about his circumstances, including employment status and income. Mr M declared he was employed full-time and that his gross annual salary was £29,166<sup>1</sup>. Zopa says the declared income figure was verified through a credit reference agency which returned a positive result, suggesting the income Mr M had declared to be accurate. As a result, it calculated his net monthly income to be £1,947.35.

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<sup>1</sup> Mr M Also declared his wife's salary as 'additional income' but Zopa, quite correctly in my view, did not include this within its affordability assessment.

Mr M was also asked for details of his monthly housing costs which he declared to be £173 for his share of the mortgage. Zopa has said it used data from the Office of National Statistics (ONS) to calculate approximate expenditure on items such as food, clothing and utilities.

Zopa also carried out a credit check which showed that Mr M had four credit cards, one store card and one hire purchase agreement.

Finally, Zopa asked Mr M about the purpose of the loan. Mr M told Zopa the loan was to be used for debt consolidation. I understand PR have said, in response to our investigator's findings, that Zopa ought to have asked more questions about which debts Mr M intended to consolidate to properly assess affordability and, its failure to do, means the checks could not be considered reasonable and proportionate.

Mr M did not have a history of applying for loans with Zopa for consolidation purposes and then returning for further funds after having failed to consolidate. Therefore, I think Zopa was reasonably entitled to believe the funds would be used for the stated purpose. And it is worth noting Mr M was being provided with enough funds to clear at least three of his credit card balances showing on his credit file which, combined, cost more per month than the monthly repayment for the lending in question. On balance, I'm satisfied that Zopa was reasonably entitled to believe that Mr M would settle some of his existing debts with the proceeds from this loan.

It was not an insignificant loan, but I note that the monthly repayments were not particularly substantial relative to Mr M's declared (and verified) income. Further, as I've said, this appears to have been Mr M's first loan with Zopa. As such, I don't think there was any established pattern in his borrowing needs, at least from Zopa, at that stage.

With all of this in mind, I think Zopa proceeded with a proportionate amount of information.

However, as I've said before, once Zopa had the information it thought it needed, it then had to evaluate it because it still had to reasonably assess whether Mr M could afford to meet the loan repayments in a sustainable way over the term of the loan.

#### Did Zopa lend to Mr M responsibly using the information it had?

From Mr M's net monthly income (£1,947.35), Zopa deducted the approximate expenditure based on the ONS statistics (£620), the information it obtained from Mr M's credit file about his existing financial commitments (£840.45), as well as the monthly repayment for the lending in question (£111.44). Having done so, Zopa calculated Mr M's disposable income to be £375.46.

Like our investigator, I don't agree with the figure Zopa relied on with regards to Mr M's existing monthly repayment for his existing financial commitments. It appears to be closer to £1,000 per month when factoring in what Mr M told Zopa about his share of the mortgage costs. Deducting this figure from Mr M's net monthly income, rather than the figure Zopa relied on, results in Mr M being left with a monthly disposable income of a little over £200<sup>2</sup>.

So, Zopa was satisfied that the loan repayments for this loan should've been affordable for Mr M on a simple pounds and pence basis. This seems like a reasonable conclusion in the circumstances.

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<sup>2</sup> This is on the assumption that Mr M did not use any of the lending in question to consolidate existing debts as he said he would.

As I've said, Zopa also carried out a credit check. The results from this check did show evidence of prior financial difficulties – in the form of late payments and a defaulted account - roughly two years prior to the lending in question. However, there was no evidence of active or recent financial problems – such as defaults, insolvencies or any other public records (such as County Court Judgments) – which ought to have given Zopa cause for concern. It strikes me that Zopa had good reason to think Mr M's financial circumstances had improved following the events several years earlier which caused him to miss payments and incur a default.

So, looking at things in the round, I don't think the results of the credit check Zopa carried out should have prompted further checks or prevented it from lending to Mr M.

For the reasons I've explained, I think Zopa carried out proportionate checks prior to agreeing to lend. I don't think there was sufficient cause for Zopa to decline Mr M's application based on the output from those checks and I don't think there was sufficient evidence from the information Zopa gathered to suggest Mr M would have difficulty repaying the loan in question in a sustainable way. Therefore, I don't think it was unreasonable of Zopa to grant the loan in question.

#### Did Zopa act unfairly or unreasonably in some other way?

I've also considered whether Zopa acted unfairly or unreasonably in some other way given what Mr M has complained about, including whether their relationship with him might have been viewed as unfair by a court under s.140A 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.

#### **My final decision**

My final decision is I don't 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 28 May 2025.

Ross Phillips  
**Ombudsman**