DRN-5441320

The complaint

Mr W, through a representative, says Zopa Bank Limited irresponsibly lent to him.

What happened

Zopa operates the lending platform which gave Mr W a 36-month loan for £8,000 with a fee of £690 on 24 October 2022. The monthly repayments were £297.29 and the total repayable was £10,702.27.

Mr W says he was a gambling addict at the time, spending thousands a month. His finances were spiralling out of control and he was using multiple pay day loans to cover day-to-day bills as all his income was used for gambling. This loan was taken out to try and consolidate some debts but things just kept spiralling out of control.

Zopa says it completed adequate checks that showed the loan was affordable for Mr W.

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

Mr W disagreed with this assessment and asked for an ombudsman's review. He re-iterated that at this time he was struggling with problematic gambling and his finances were under pressure. In the end he head to enter an IVA.

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 rules and regulations when Zopa arranged the loan for Mr W 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 W. 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 W.

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 W. So to reach my conclusion I have considered the following questions:

- did Zopa complete reasonable and proportionate checks when assessing Mr W'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 W before it approved the loan. It asked for details of his employment status, monthly income (£2,499) and housing costs (£600). It verified his declared income with one of the credit reference agencies. It also checked his credit file to understand his credit history and existing monthly credit commitments (£382.70). It ensured his remaining income would cover a minimum of £725 living costs. It asked about the purpose of the loan which was debt consolidation. From these checks combined Zopa concluded the loan would be sustainably affordable for Mr W.

I think these checks were proportionate given the monthly repayments relative to Mr W's income and the term and value of the loan. And I think Zopa made a fair lending decision based on the information it gathered. I'll explain why.

Zopa's affordability assessment showed Mr W would have around £1,220 of income each month to cover his living costs after paying rent, his existing credit commitments and this new loan. Zopa has told us based on national statistics at the time it looked for a minimum of £725. So I think it was reasonable to conclude this loan was affordable for Mr W on a pounds and pence basis.

In addition, Mr W said he was taking out the loan to consolidate existing debts and he could have repaid them in full. I accept Mr W may not have gone on to clear his existing balances with this loan. But Zopa could only make a reasonable decision based on the information it had available at the time. In my view, all Zopa could do was take reasonable steps to ensure the payments would be affordable for Mr W. And as Mr W didn't have a history of applying for loans with Zopa for consolidation purposes and then returning for further funds after having failing to consolidate as he said he would, I think Zopa was reasonably entitled to believe the funds would be used for the stated purpose. I would add that even if Mr W didn't settle his existing debts this new loan appeared to be affordable.

Zopa also needed to check Mr W creditworthiness to be assured that he could make the loan repayments sustainably. The credit check showed no adverse data had been recorded in the last 12 months. There was a CCJ from 2015 for £431 but this was settled in 2018 so I don't find it was a reason not to lend in October 2022. Mr W had two credit cards with a total balance of £7,654. These were up-to-date. He had no payday loans and was not using an overdraft facility. So there were no indicators of the financial strain or the cycle of debt that Mr W describes. It can be that a lender will not see everything a consumer can see on their full credit file – not all lenders report to all the credit reference agencies and there can be timing lags. But I can only fairly expect Zopa to respond to the data its credit check returned. It follows I don't think Zopa was wrong to lend to Mr W.

I am sorry Mr W has struggled with his finances and problematic gambling – but in the circumstances of this case I do not find it would have been proportionate for Zopa to carry out the depth of review needed to possibly discover this. 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.

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 W 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 W's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 6 May 2025.

Rebecca Connelley
Ombudsman