

The complaint

Mrs B says Zopa Bank Limited irresponsibly lent to her.

What happened

Mrs B took out three loans from Zopa as set out below, all accounts are now closed.

loan	date	value	term in months	monthly repayment
1	15/10/2021	£5,000	24	£241.45
2	15/08/2022	£7,500	28	£206.96
3	02/04/2023	£1,500	36	£59.95

Mrs B says Zopa approved these loans despite her having high levels of existing debt. They have caused her financial harm.

Zopa says it carried out adequate checks that showed Mrs B could afford each loan.

Our investigator upheld Mrs B's complaint in part with regards loans 2 and 3. He didn't think the checks were proportionate for loan 2. And had Zopa completed better checks it would have realised Mrs B would likely not be able to sustainably repay the loan as she was in a cycle of debt. He said it followed Zopa was also wrong to give loan 3.

Mrs B accepted the investigator's assessment but Zopa did not. It asked for an ombudsman's review saying, in summary, there was nothing in the results of the checks at the time of loan 2 that suggested Mrs B was struggling. Her existing debt was well-managed with no adverse data on her file. There was nothing that meant it needed to ask for bank statements. The affordability assessment showed Mrs B exceeded its disposable income thresholds, and its checks met regulatory requirements.

It said the investigator's approach to loan 3 does not reflect the FCA's requirement or this service's practice of assessing each agreement individually, based on the data available at the time of that specific application. At the time Mrs B applied for loan 3 she continued to manage all her credit well and her disposable income continued to show a positive value against the threshold Zopa had in place at that time.

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.

We've set out our approach to considering unaffordable and irresponsible lending complaints on our website including the key relevant rules, guidance and good industry practice. I've had this approach in mind when considering Mrs B's complaint.

Zopa needed to take reasonable and proportionate steps to ensure that it didn't lend

to Mrs B irresponsibly. This means it should've carried out reasonable and proportionate checks to satisfy itself that Mrs B could repay the loan in a sustainable way. These checks could take into account a number of things such as the loan amount, the repayment amount and Mrs B's income and expenditure.

This means to decide this complaint I need to consider if Zopa's checks were proportionate; if so, did it make fair lending decisions; if not, what would proportionate checks most likely have shown; and finally, did Zopa act unfairly towards Mrs B in some other way.

As the parties are no longer in dispute about loan 1, I will focus here on loans 2 and 3, albeit with regard to the fact Zopa had previously lent to Mrs B which gave it additional insight and data.

I can see Zopa asked for some information from Mrs B before it approved loans 2 and 3. It asked for details of her employment status, monthly income and housing costs. Mrs B has raised that Zopa has said her housing costs were zero, and this is wrong. She paid them directly from her salary. But as the lender used her net monthly salary that already took those housing costs into account. It verified her declared income with one of the credit reference agencies. It also checked her credit file to understand her credit history and existing monthly credit commitments. It ensured her remaining income would cover a minimum of £620 living costs for loan 2 and £725 for loan 3. It asked about the purpose of the loans which was debt consolidation. From these checks combined Zopa concluded loans 2 and 3 would be sustainably affordable for Mrs B.

Loan 2

Like the investigator, I am not satisfied these checks went far enough, given the initial results and what Zopa already knew about Mrs B as a result of lending to her in 2021. However, I won't comment further on this as even based on the information it had, I do not think Zopa should have given loan 2 to Mrs B. I'll explain why.

Mrs B took out loan 1 to repay credit card debt. At that time she had £4,779 of such debt so she could have cleared it all with loan 1. When she applied for loan 2 less than a year later, she had £11,435 of credit card debt. The card she planned to settle now had a higher balance of £5,447 and Mrs B had opened a new credit card in December 2021. She had quickly maxed out that limit as it was at 99% utilisation. She had also opened a new personal loan six weeks prior to this application. So whilst Zopa argues Mrs B's credit file showed she was managing all her existing debts well I cannot see it had the assurances it needed that giving loan 2 would not cause Mrs B to need to borrow to repay or suffer some other adverse financial consequences.

Zopa knew from its credit check that Mrs B needed to spend around £1,161.75 each month on her existing credit commitments – so around half her verified income of £2,350. And whilst we would typically find it is reasonable for a lender to rely on an applicant's stated loan purpose, here there was available evidence that she may not successfully consolidate any of her debt given the position after loan 1. No reduction in existing debt would leave Mrs B needing to spend 58% of her income on her credit commitments. At this level there was a high risk she would not be able to keep making all her repayments sustainably. So, I do not think it was responsible for Zopa to give loan 2 to Mrs B.

I note Zopa argues that we have used a 5% repayment rate to calculate the repayment cost of her credit card debt. It says this materially overstates the contractual or modelled minimum payment levels used in its affordability assessment. But as it knows, this service does not use minimum payment assumptions, rather we allocate 5% of outstanding balance

to allow for repayment of interest and capital and to ensure there is no risk of a consumer falling into persistent debt. Assuming Mrs B would only ever be making the minimum repayments on her revolving debt is akin to endorsing the fact that she would not meaningfully reduce her debt, and repay it over a reasonable period of time. And such a scenario is what the regulatory rules and guidance on persistent debt aim to prevent. So, I cannot agree with Zopa's argument that its approach here was 'FCA-aligned'.

Loan 3

In response to the investigator's decision to also uphold loan 3, Zopa said each lending decision must be assessed individually. I accept that whilst it may be wrong to give a loan at a certain point in time, an applicant's financial position can stabilise making future lending affordable and responsible. I have looked at the results of the check Zopa carried out for loan 3 to see if this was the case.

Mrs B returned for more borrowing eight months after receiving loan 2. Her debt level had increased by 66% from £21,078 to £35,013. There had been no increase in her salary. She had taken out two other new loans since loan 2, one in September 2022 and one in November 2022. She should now already be spending £1,393.10 each month – 60% of her income - to sustainably manage her debt, and the planned consolidation from loan 2 did not seem to have worked.

I think there were clear indications by this stage that Mrs B was in a harmful cycle of borrowing to repay and so Zopa was wrong to lend to her.

Putting things right

As I don't think Zopa ought to have opened loans 2 and 3, I don't think it's fair for it to be able to charge any interest or charges under these credit agreements. But I think Mrs B should pay back the capital amounts she borrowed.

Therefore, Zopa should:

Add up the total repayments Mrs B made on loans two and three and deduct these from the total amount of money Mrs B received.

a) If this results in Mrs B having paid more than she received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement)*. Zopa should also remove all adverse information regarding this account from Mrs B's credit file.

b) If any capital balance remains outstanding, then Zopa should arrange an affordable and suitable payment plan with Mrs B. Once Mrs B has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

*HM Revenue & Customs requires Zopa to take off tax from this interest. Zopa must give Mrs B a certificate showing how much tax it's taken off if she asks for one.

I've also considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Mrs B in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

I am upholding Mrs B's complaint in part with regards to loans 2 and 3.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 12 March 2026.

Rebecca Connelley
Ombudsman