

The complaint

Mrs W complains that Zopa Bank Limited lent irresponsibly when it approved three loan applications she made.

What happened

The background to this complaint and my initial conclusions were set out in a provisional decision. I said:

Mrs W applied for a consolidation loan of £16,000 with Zopa in January 2023 (loan 1). In her application, Mrs W said she was a homeowner with mortgage payments of £415 a month. Mrs W also said she was employed with an annual income of £51,357 that Zopa calculated left her with £3,195 a month net.

A credit file found no evidence of adverse credit or recent missed payments. Unsecured debts totalling £14,330 with monthly repayments of £672 were noted and applied to Zopa's affordability assessment.

An affordability assessment was completed. Zopa used a tool provided by the credit reference agency to verify Mrs W's income. A mortgage payment of £589 was used, slightly higher than the figure Mrs W declared. Zopa also used an estimate obtained from nationally recognised statistics for Mrs W's general living expenses in the assessment. Mrs W's existing debt repayments were also included. Zopa reached the view Mrs W had a disposable income of £1,893 a month after her existing outgoings were met and approved her loan application. Loan funds totalling £16,000 were issued to Mrs W. The monthly repayments were £398.44 over a 48 month term.

Mrs W applied to refinance loan 1 into loan 2 in March 2024. Mrs W applied for a loan amount of £22,000 over a 60 month term with monthly repayments of £459.23. In this application, Mrs W confirmed her residential status and said she was employed with an annual income of £65,355. Zopa says the income figure was verified again and used a net monthly income of £3,857.

A credit search found no evidence of adverse credit or recent missed payments. Total unsecured debt of £41,906 was found on Mrs W's credit file with monthly repayments of £1,880.

A new affordability assessment used mortgage payments of £575 a month in addition to unsecured debt repayments of £1,880. Zopa also applied an estimate for Mrs W's regular outgoings. Zopa reached the view Mrs W had a disposable income of £1,570 a month after her existing outgoings were met. Zopa approved the application for loan 2, repaid loan 1 and released the remaining funds to Mrs W.

In September 2024 Mrs W applied to borrow £14,500 (loan 3) to run consecutively with loan 2. In this application, Mrs W gave her annual income as £65,354 and Zopa verified it, using a net monthly income of £3,857. Mrs W also confirmed her residential status.

A credit search found no evidence of adverse credit or recent missed payments. Mrs W's unsecured debt had increased from £41,906 before loan 2 was approved to £56,355 with monthly repayments totalling £2,235.

A new affordability assessment used a mortgage payment of £575 in addition to Mrs W's unsecured debt repayments of £2,235. An estimate for Mrs W's general living expenses was also used. Zopa says Mrs W had a disposable income of £1,705 a month after her existing outgoings were met. Zopa approved Mrs W's application for loan 3 and the funds were released.

More recently, Mrs W complained that Zopa lent irresponsibly and it issued a final response. Zopa said it had carried out the relevant lending checks before approving Mrs W's loan application and didn't agree it lent irresponsibly.

An investigator at this service looked at Mrs W's complaint. They thought Zopa had completed proportionate checks before approving all three applications. The investigator wasn't persuaded Zopa lent irresponsibly to Mrs W and didn't uphold her complaint. Mrs W asked to appeal and said she was consistently overdrawn throughout the period Zopa was lending to her and was close to the limit of her existing credit cards. Mrs W also said that her outstanding debt levels by loan 3 came to around 90% of her annual income. Mrs W added that her salary was subject to a temporary increase at the time. As Mrs W asked to appeal, her complaint has been passed to me to make a decision.

What I've provisionally 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.

Before agreeing to lend, the rules say Zopa had to complete reasonable and proportionate checks to ensure Mrs W could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;*
- The total sum repayable and the size of regular repayments;*
- The duration of the agreement;*
- The costs of the credit; and*
- The consumer's individual circumstances.*

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

I've set out the information Zopa used when considering all the loan applications above. I'm going to look at each loan application in turn.

When Mrs W applied for loan 1 she confirmed her residential status and employment details. Zopa verified the income figure provided via the credit reference agencies which confirmed what Mrs W said. So I'm satisfied the decision to use a net monthly income of £3,195 was reasonable.

The credit search found Mrs W had a joint mortgage. A monthly repayment figure of £589 was used in the application which appears reasonable to me. In addition, the credit search found Mrs W had unsecured debts totalling £14,330. I've looked at Mrs W's credit file for loan 1 and can see her debts were all up to date with no signs of arrears. The total monthly payment of £672 was taken into account by Zopa in its affordability assessment.

I can see Zopa took Mrs W's income, housing costs, living expenses and existing debts into account when completing its affordability assessment. I'm satisfied that was a reasonable approach in the circumstances of the application for loan 1. Zopa reached the view Mrs W had a disposable income of £1,893 a month which was more than sufficient to sustainably cover repayments of £398.44 to a new loan of £16,000. In my view, Zopa completed proportionate checks before approving loan 1. And I'm satisfied the information Zopa obtained showed Mrs W was able to sustainably afford repayments of £398.44 a month. I'm sorry to disappoint Mrs W but I haven't been persuaded Zopa lent irresponsibly when it approved loan 1.

Loan 1 ran until March 2024 when Mrs W applied to refinance it and borrow some additional funds. Mrs W's income level had increased to £65,355. I understand Mrs W says this was a temporary increase, but given Zopa's verification tool confirmed the income figure provided I think it was reasonable of it to use it in the application. I haven't seen anything that would've shown Zopa Mrs W's income level wasn't permanent.

A new credit search confirmed Mrs W still had a mortgage and monthly repayments of £575 were used in the affordability assessment. I can see Mrs W's other unsecured debts had increased to £41,906 by this point. I agree that's a significant increase since loan 1 was approved. But I think it's fair to say Mrs W's debts were all up to date and the monthly repayments represented around less than half her monthly outgoings.

The affordability assessment reached the view Mrs W had a healthy disposable income of £1,570, having taken her existing outgoings into account. Overall, I'm satisfied that was a reasonable conclusion following proportionate checks by Zopa. In my view, the information Zopa obtained showed Mrs W was able to sustainably afford increased repayments from £398.44 to £459.23. I'm sorry to disappoint Mrs W but I haven't been persuaded Zopa lent irresponsibly when it approved loan 2.

I've reached a different view to the investigator concerning loan 3. I think it's fair to note that loan 3's application was made just six months after loan 2 was approved. And loan 3 didn't refinance loan 2. It ran consecutively, meaning Zopa was lending a further £14,500 plus interest with additional monthly repayments of £304.69.

I also think it's fair to note Mrs W's unsecured debt levels increased from £41,906 before loan 2 to £56,355 before loan 3. An increase of around £15,000 in a six month period. Even accepting Mrs W gave "consolidation" as the loan purpose, I think the way Mrs W's debts had increased in addition to the new loan of £14,500 plus interest indicates she may not have been borrowing at a sustainable rate. In my view, it would've been proportionate for Zopa to have completed a more detailed approach to Mrs W's application for loan 3 before approving it to get a clearer picture of her circumstances. One option would've been to review Mrs W's bank statements for the months before the application for loan 3 to get an idea of her income and outgoings. That's the approach I've taken.

I found Mrs W had an average monthly income of £3,856 in the three months before her application was made. Mrs W's average outgoings for things like her existing debt repayments, communications, utilities, household expenses, supermarket shopping, fuel, parking and other regular outgoings came to an average of £3,441. That meant Mr J had around £415 remaining after her existing outgoings were met.

The new payment for loan 3 was £304.69 a month which would've left Mrs W with just over £100 a month as a disposable income. I appreciate Zopa may say Mrs W listed "consolidation" as the reason for loan 3 in the application. But I think that by looking at the way Mrs W's debts had grown since she started to borrow from Zopa that the use of previous consolidation attempts didn't lead to lower levels of credit. Mrs W's existing credit card debt significantly exceeded the new loan she was taking with Zopa. So even if she did use the entire loan funds to consolidate credit cards, she'd still needed to have had funds available to repay the remaining balances. I haven't been persuaded Mrs W's bank statements show she had capacity to afford any unusual or emergency expenses and to make reasonable repayments to her existing debts.

As I've said, I'm satisfied there was a clear trend in terms of Mrs W's unsecured debt levels increasing. I think the £15,000 increase between loans 2 and 3 should've caused Zopa some concern and led to additional, proportionate, checks before approving Mrs W's application in September 2024. And I think proportionate checks, like reviewing Mrs W's bank statements, would've most likely led Zopa to find she was already very much at her limit in terms of her regular outgoings and unlikely to be able to sustainably afford a new loan with monthly repayments of £304.69. I haven't been persuaded Zopa lent responsibly when it approved loan 3. As a result, I intend to uphold this part of Mrs W's complaint.

I've considered whether the business acted unfairly or unreasonably in any other way including 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 below results in fair compensation for Mrs W 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.

I invited both parties to respond with any additional comments or information they wanted me to consider before I made my final decision. Mrs W responded to confirm she accepted the settlement in the provisional decision.

Zopa didn't accept and said loan 3 was assessed using its standard affordability approach. The figures used by Zopa in its affordability assessment were confirmed. Zopa said it remained of the view that the approach taken across all three loan applications was reasonable, even accepting Mrs W's increased debt levels by loan 3. Zopa pointed out there were no arrears or other indicators of repayment difficulty. Zopa explained it remained of the view that the checks completed for loan 3 was affordable and that there was no requirement to review Mrs W's bank statements.

Zopa also pointed out the loan purpose was consolidation which formed part of the overall assessment it completed. Zopa said my review of Mrs W's bank statements was a retrospective assessment based on material that wasn't part of its application review. Zopa also said it had verified Mrs W's income, her credit file was checked and that mortgage costs and essential outgoings were included. Zopa didn't agree it lent irresponsibly when it approved loan 3.

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.

I've read and considered all the points raised by Zopa and I think it's fair to say they are broadly in line with the information it submitted in the original file it sent us. I was aware of the basis of Zopa's decision to approve loan 3 and the provisional decision notes Mrs W's credit file was checked and income was verified. I don't dispute those points.

My provisional decision explained why I felt Zopa's standard approach, taken for loans 1 and 2, meant proportionate checks were completed. I wasn't persuaded those loans were irresponsibly approved based on the information Zopa obtained about Mrs W. But the provisional decision explains that I found a clear trend in Mrs W's unsecured debts increasing. As I said in the provisional decision, Mrs W's other debts increased by around £15,000 in a six month period between loans 2 and 3. And loan 3's application was for an additional £14,500 plus interest. Even accepting Mrs W had a reasonably high income, her unsecured borrowing was also high and appears to have been increasing.

Whilst Mrs W's credit file didn't show arrears or recent arrears, it did show a clear picture of increasing debts. And Mrs W's borrowing history with Zopa shows that the previous consolidation loan she took didn't lead to a reduction in her unsecured balances.

I appreciate my review of Mrs W's bank statements was retrospective. But I only used information that would've been available to Zopa in September 2024, when loan 3 was approved. I looked at bank statements Mrs W would've been able to supply Zopa if requested. So I'm satisfied that whilst the review was completed retrospective, the information I relied on would've been available to Zopa before it approved loan 3.

I've relooked at all the available information, paying close attention to the lending data Zopa used for all the loans, and considered its response to my provisional decision. For the reasons I've given above, I haven't been persuaded to change the conclusions I reached. I still think Mrs W's complaint should be upheld, for the same reasons.

My final decision

My decision is that I uphold Mrs W's complaint and direct Zopa Bank Limited to settle as follows:

Add up the total amount of money Mrs W received as a result of having been given loan 3. The repayments Mrs W made to loan 3 should be deducted from this amount.

- a) If this results in Mrs W having paid more than they received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement). †
- b) If any capital balance remains outstanding, then Zopa should to arrange an affordable and suitable payment plan with Mrs W.

† HM Revenue & Customs requires Zopa to take off tax from this interest. Zopa must give Mrs W a certificate showing how much tax it's taken off if they ask for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs W to accept or reject my decision before 24 April 2026.

Marco Manente
Ombudsman