

## **The complaint**

Mr G has complained that Zopa Bank Limited acted irresponsibly when it provided him with both a hire purchase agreement and an unsecured personal loan in 2021.

## **What happened**

Mr G applied for a hire purchase agreement for £5,000 in June 2021 and an unsecured personal for £15,000 in December 2021 from Zopa. He has said that at the time he was experiencing extremely poor mental health and was gambling excessively. He believes that Zopa failed to run adequate checks when he approached it for credit in 2021. He says if it had properly reviewed his circumstances it would've realised his excessive gambling was causing him financial stress and that he was a vulnerable consumer. As such he believes Zopa shouldn't have provided him with the credit it did. He's asked for it to remove all interest and charges and to delete all adverse information linked to both the hire purchase agreement and personal loan from his credit file.

Zopa has said that when Mr G applied for both the hire purchase agreement and unsecured personal loan it ran all required checks against his income and credit rating. It says Mr G had declared that the loan was for debt consolidation and that he had more than enough disposable income available to him each month to cover the repayments. Therefore, it doesn't think it was wrong to provide him with either the hire purchase agreement or the loan. So, it didn't uphold his complaint.

Mr G disagreed with Zopa's response and brought his complaint to our service. I issued a provisional decision on 21 September 2023 upholding Mr G's complaint. I found that the decision to provide him with the hire purchase agreement in June 2021 was fine but that there was sufficient evidence linked to Mr G's borrowing at the time he applied for loan in December 2021 for Zopa to have queried the sustainability of the loan. So I said the bank needed to refund all interest and charges applied to the loan.

Mr G accepted the findings of the provisional decision, but Zopa didn't. In response it said that its systems had approved the loan and therefore it was affordable. Because Mr G passed all the checks run by its systems' algorithms it felt there was nothing to indicate it needed to ask Mr G for more information or check his details more carefully. It also said that even if it had checked Mr G's bank statements it would've only looked at the incoming credits to verify Mr G's salary and it wouldn't have looked at his outgoings or what he was spending the credit he received on. So it would never have seen the gambling transactions or taken these into consideration.

## **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.

Having done so I'm still of the opinion that Zopa shouldn't have provided Mr G with the £15,000 loan and for much the same reasons. So I will repeat the findings from my provisional decision below and then address the points raised by Zopa.

As Mr G took out two different credit products with Zopa I will address them separately.

#### *£5,000 hire purchase agreement June 2021*

Mr G applied for a £5,000 hire purchase agreement in June 2021 in order to buy a car. At this time his declared income was £65,000 and he had some existing loans and credit cards already in his name, some of which was relatively new borrowing. For example, looking at Mr G's credit file I can see he took out new loans in November and December 2020 as well as a large loan for approximately £10,000 in April 2021. So, there was a pattern already emerging in June 2021 of Mr G becoming increasingly reliant on credit.

Zopa has said that it asked Mr G to complete an income and expenditure form and that it checked his credit file and was satisfied that all existing forms of credit were up to date with repayments and that the repayments were affordable given his monthly disposable income. However, the regulations require not just that lenders check new forms of credit are affordable, but also that they're likely to be sustainable over the course of the repayment period.

While I think it would've been prudent for Zopa to have gathered more information from Mr G when he applied for the hire purchase agreement, this was a relatively low amount of money to borrow and it was for a fixed purpose, to obtain a car. So, Mr G didn't actually receive any funds into his account, and the monthly repayments were only £173 per month. Therefore, despite the fact that I think Zopa could've asked for more detailed submissions I think the lending was likely affordable and substantiable and so I'm not upholding this element of Mr G's complaint.

#### *£15,000 unsecured personal loan December 2021*

Six months after applying for the hire purchase agreement Mr G applied for a large loan of £15,000 over 36 months. Which meant his monthly repayments were also expensive at approximately £550 per month for the term of the loan.

At this stage Mr G still had the three loans listed above as well as the hire purchase agreement. He also had four credit cards all of which were sitting near their limits. The declared reason for this loan was consolidation but the interest rate on the loan was quite high so I'm not entirely sure that it would've been used for that purpose. Also, while Zopa have said that they completed an income and expenditure form with Mr G at this time I've not see the detail of that or what information he was asked beyond the basics.

So, I think Zopa should've done more than run the basic affordability checks it did before providing Mr G with this additional lending. I say this because although Mr G had a higher-than-average income the volume of lending he had taken out in the previous year was unusual. Especially for someone who apparently had over £1,960 of disposable monthly income. I think Zopa should've questioned why all this credit was necessary if Mr G genuinely had the amount of disposable income he appeared to.

There are no specific checks that have to be completed but when a lender needs to verify a consumer's income and outgoings. But one of the most common and quickest ways of doing it is to check bank statements, as this will likely show both an applicant's actual monthly income and all fixed regular outgoings. If Zopa had asked to confirm Mr G's disposable income and declared outgoings by reviewing his bank statements it would've seen that by December 2021 Mr G was gambling in an excessive and compulsive way. In fact, it would've quickly realised that all of the lending that he had taken in the previous year, except for the lending linked to the hire purchase agreement, had primarily been lost to gambling transactions. And so, it would've realised that Mr G was spiralling financially and extremely

vulnerable.

I don't think Zopa would've agreed to give Mr G the loan in December 2021 if it had properly queried why he was taking out the volume of credit he was at that time. I think it would've been clear to it that the repayments weren't sustainable and that his increased volume of credit was linked to harmful levels of compulsive spending.

In response to the provisional decision Zopa has said the checks its systems are designed to run to would never have picked up on the fact Mr G was gambling extensively or taken these into consideration before approving an application for credit. I find this admission extremely worryingly. The rules set out by the Financial Conduct Authority (FCA) for lenders state that they need to consider not only affordability but also the sustainability of any credit provided to consumers. And part of that latter consideration will be reviewing the lines of credit already available to the consumer, what they're being used for and how they're managing their finances generally. By designing its systems to never review gambling transactions Zopa is at serious risk of providing credit to extremely vulnerable consumers and causing serious harm to them. I would respectfully suggest that if its systems genuinely never consider any signs of compulsive spending before approving credit applications it needs to revisit those systems and review whether or not they are fit for purpose.

### **Putting things right**

I don't think Zopa should have provided the December 2021 loan to Mr G, so I don't think it's fair for it to charge any interest or charges on that loan. However, Mr G still needs to repay the capital amount he borrowed. Therefore, Zopa should:

- Add up the total amount of money Mr G received as a result of having been given the loan and then rework the account removing all interest, fees, charges, and insurances (not already refunded) that have been applied;
- Subtract the repayments Mr G has made from this amount.
- If this results in Mr G having paid more than he received, any overpayments must be refunded along with 8% simple interest\* calculated from the date the overpayments were made to the date of settlement.
- If any capital balance remains outstanding, Zopa should arrange an affordable and suitable payment plan with Mr G. If no such arrangement can be agreed, Mr G can return to this service to make a further complaint.
- Remove any negative information recorded on Mr G's credit file relating to the loan. If Mr G enters a repayment plan this information will remain on his credit file until the capital amount borrowed has been repaid in full.

\*HM Revenue & Customs requires Zopa to deduct tax from any award of interest. It must give Mr G a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

### **My final decision**

For the reasons set out above I partially uphold Mr G's complaint against Zopa Bank Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 13 November 2023.

Karen Hanlon  
**Ombudsman**