

The complaint

Miss K complains that the loan she had from Loans 2 Go Limited was unaffordable to her.

What happened

Miss K took out a fixed sum loan with Loans 2 Go on 23 July 2019. She borrowed £1,200 and was due to repay £274.27 monthly for 18 months, finishing on 23 January 2021.

Miss K says that she doesn't believe Loans 2 Go carried out proper affordability checks before it approved her loan. She says she already had multiple loans at the time and the interest charged on the loan was very high. Miss K adds that the loan has caused her further financial problems and stress which could have been avoided had the loan been declined or charged at a lower rate of interest. She says Loans 2 Go allowed her to pay reduced payments for two months but will not acknowledge it was wrong to have approved the loan or agree a reasonable repayment amount.

Loans 2 Go says it verified Miss K's financial disclosures by using external data sources, including her credit file. It says that although it adjusted both her declared income and expenditure, it still found the loan repayments to be affordable. Loans 2 Go adds that it has done its best to engage with Miss K to help with her current financial situation.

Our adjudicator recommended the complaint should be upheld. She said that she wasn't satisfied Loans 2 Go had carried out proportionate checks. She said, had it done so, it's likely to have found Miss K's expenditure exceeded her income and she'd borrowed £5,000 from short term loan providers in the lead up to the Loans 2 Go loan. Our adjudicator recommended that Loans 2 Go should deduct any payments Miss K made from the principal, with no interest added. It should then attempt to arrange a suitable repayment plan for the balance. She said it should also ensure that any associated negative information is removed from her credit file.

Loans 2 Go responded to say, in summary, that it had adjusted Miss K's income downwards when assessing the loan and that her credit report did not show £5,000 of short-term lending. It acknowledges the credit report showed previous defaults, but none were recent and the report showed she was managing her credit commitments. It argued that its checks were proportionate and the credit report did not give cause for concern.

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 need to take into account the relevant rules, guidance and good industry practice.

The Financial Conduct Authority (FCA) was the regulator when Loans 2 Go lent to Miss K. Its rules and guidance obliged it to lend responsibly. As set out in the regulator's Consumer Credit Sourcebook (CONC), this meant that Loans 2 Go needed to take reasonable and

proportionate steps to assess whether or not a borrower could afford to meet its loan repayments in a sustainable manner over the lifetime of the agreement.

CONC 5.2A.4R states that:

A firm must undertake a reasonable assessment of the creditworthiness of a customer before:

1. *entering into a regulated credit agreement; or*
2. *significantly increasing the amount of credit provided under a regulated credit agreement.*
3. *significantly increasing a credit limit for running-account credit under a regulated credit agreement.*

Repaying debt in a sustainable manner was defined as being able to meet repayments out of normal income without the customer having to borrow to meet the repayments, without failing to make any other payment the customer has a contractual or statutory obligation to make and without the repayments having a significant adverse impact on the customer's financial situation (CONC 5.2A.12R).

In general, I'd expect a lender to require more assurance the greater the potential risk to the borrower of not being able to repay the credit in a sustainable way. So, for example, I'd expect a lender to seek more assurance, potentially by carrying out more detailed checks

- the *lower* a person's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *longer* the term of the loan (reflecting the fact that the total cost of the credit is likely to be greater and the borrower is required to make payments for an extended period).

In addition, as per CONC 5.2A.16G (3): *For the purpose of considering the customer's income, it is not generally sufficient to rely solely on a statement of current income made by the customer without independent evidence (for example, in the form of information supplied by a credit reference agency or documentation of a third party supplied by the third party or by the customer).*

And CONC 5.2A.17R (2) says: *The firm must take reasonable steps to determine the amount, or make a reasonable estimate, of the customer's current non-discretionary expenditure.*

Bearing all of this in mind, in coming to a decision on Miss K's case, I have considered the following questions:

- Did Loans 2 Go complete reasonable and proportionate checks when assessing Miss K's loan application to satisfy itself that she would be able to repay the loan in a sustainable way?
 - If not, what would reasonable and proportionate checks have shown?
- Did Loans 2 Go make a fair lending decision?
- Did Loans 2 Go act unfairly or unreasonably in some other way?

I've seen evidence to show Loans 2 Go asked about Miss K's financial circumstances, checked her credit file and verified her income. But I'm not satisfied that these checks went far enough. I say that because:

- The loan was over a term of 18 months and Loans 2 Go needed to ensure the repayments were sustainable over that period;
- The monthly repayments on the new loan were almost 20% of Miss K's verified income;
- Loans 2 Go's analysis showed potential discrepancies between its checks and Miss K's declared income and credit expenditure;
- The credit check showed:
 - Miss K had defaults on her account, although none were in the previous six months;
 - Miss K's credit commitments were higher than the £200 she'd declared:
 - She'd taken out a large high-cost loan five months earlier with repayments of £236 per month;
 - She had two active credit cards with a combined balance of over £400;
 - There was a combined balance of over £600 on two of the defaulted accounts;

In particular, I find Loans 2 Go should have been concerned that, with the new loan, Miss K would be repaying over £510 per month on high-cost loans. This equated to over 34% of the income Loans 2 Go used in its affordability calculations (and 27% of Miss K's declared income). I think Loans 2 Go should have realised that this could be an indication of someone experiencing financial difficulty.

So I think Loans 2 Go should have seen from the available information that Miss K might already be struggling to manage her money and should have carried out further checks.

For the above reasons, I consider Loans 2 Go's checks should have included a full review of Miss K's financial circumstances, including further verification of her income and expenditure.

So, I've had a look at Miss K's bank statements to see what they showed as a reasonable proxy for what Loans 2 Go might have found out had it looked into Miss K's finances in more depth:

- Miss K's income was £1,541, as compared with the £1,900 she'd declared, but I acknowledge Loans 2 Go had already adjusted this figure downwards;
- Miss K made regular payments totalling almost £1,000 each month;
- The monthly spend on food and petrol was about £230;
- Taking the above into account Miss K was left with £329 of disposable income, before making the £274.27 repayment;
- Included in the above expenditure were regular payments to two debt management companies;
- Miss K also spent roughly £200 per month on gambling in the months preceding the loan;
- In the month immediately prior to the loan, Miss K borrowed almost £8,000 from five other high cost loan providers;
 - Two of these were the day before the Loans 2 Go loan, so I accept that these may not have been apparent to Loans 2 Go even if it had carried out further checks;
 - The first monthly repayments on the remaining three totalled over £630.

In summary, Miss K's bank statements showed she had insufficient disposable income to comfortably make the repayments, even before the gambling and further loans were taken into account. Combined with the payments to the debt management companies, there were clear indications that Miss K was already struggling to manage her money.

So I'm satisfied reasonable and proportionate checks would have shown it was irresponsible to lend to Miss K and Loans 2 Go did not make a fair lending decision.

I acknowledge what Miss K says about Loans 2 Go not agreeing a reasonable repayment plan and I can see at one point it appeared to agree to a plan that was identical to Miss K's contractual repayments. However, Loans 2 Go did agree to accept much reduced payments for two months on the understanding Miss K would be in contact again in October 2019. As Miss K had complained about the lending by that time, I cannot conclude that Loans 2 Go acted unfairly or unreasonably in that respect, or in any other way.

But I do find that Miss K was unlikely to be able to sustainably repay the loan and that Loans 2 Go was wrong to lend to her.

My final decision

My decision is that I uphold this complaint. Loans 2 Go Limited should:

- Add up the total amount of money Miss K received as a result of having been given the loan. The repayments Miss K made should be deducted from this amount;
 - If this results in Miss K having paid more than she received, then any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement*);
 - If any capital balance remains outstanding, then Loans 2 Go should attempt to arrange an affordable/suitable payment plan with Miss K.
- Remove any negative information about the loan from Miss K's credit file up to this point.

*HM Revenue & Customs requires Loans 2 Go to take off tax from this interest. Loans 2 Go must give Miss K a certificate showing how much tax it's taken off if she asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss K to accept or reject my decision before 9 February 2021.

Amanda Williams

Ombudsman