

## **The complaint**

Mr M has complained that Loans 2 Go Limited lent to him irresponsibly and that it has treated him unfairly in other ways.

## **What happened**

Mr M was given a loan by Loans2Go in September 2018 for £500. The loan was due to be repaid in weekly instalments, which meant he had to pay around £113 per month in repayments. The total amount due to be repaid over the 18-month loan term, including interest, was just over £2, 038. I understand the loan is still outstanding.

When Mr M complained to Loans2Go he also complained about the level of service he'd received during some telephone conversations. Loans2Go offered to reduce Mr M's loan balance by £50 as a gesture of goodwill. Mr M brought his complaint to this service.

One of our adjudicators has looked into the complaint. She didn't think Loans2Go should have provided Mr M with the loan and she asked the lender to put things right. Loans2Go didn't agree with the adjudicator's assessment, and so the complaint has been passed to me to make a final decision about the matter.

## **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 unaffordable and irresponsible lending on our website and I've considered this approach when deciding Mr M's complaint.

Loans2Go needed to take reasonable steps to ensure that it didn't lend to Mr M irresponsibly.

The lender was required to carry out a borrower focussed assessment - sometimes referred to as an "affordability assessment" or "affordability check". The checks had to be "borrower" focussed – so Loans2Go had to think about whether repaying the loan sustainably would cause difficulties or adverse consequences for Mr M.

Loans2Go had to carry out reasonable and proportionate checks to satisfy itself that Mr M would be able repay the loan sustainably. There was no set list of checks that Loans2Go had to do, but it could take into account a number of different things such as the loan amount, the length of the loan term, the repayment amounts, and the borrower's overall financial circumstances.

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 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 customer is required to make payments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for any particular application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether Loans2Go did what it needed to before agreeing to give the loan to Mr M.

Loans2Go says it asked Mr M for information about his income and expenditure and it carried out some credit checks. Loans2Go thinks its checks were reasonable and proportionate – given the amount being borrowed, and the level of repayments compared to Mr M's monthly disposable income. In some circumstances I might agree and on the face of it, Mr M could comfortably afford the loan.

However, I would also expect a lender to react appropriately to the information it had gathered about a consumer.

The credit report that Loans2Go acquired for Mr M showed a number of 'arrangements to pay' related to previous credit, including one related to a loan with an outstanding balance in excess of £6,000. These arrangements to pay were largely in relation to loans that Mr M had taken out in the previous 12 months or so. Mr M's credit report also showed his credit card utilisation for the previous six months was at 96%. I would of course expect there to be some adverse information on the credit report, given the type of lending being sought. But on balance, I think the information on Mr M's credit report ought reasonably to have suggested to Loans2Go that Mr M had experienced some difficulties with repaying credit in the previous 12 months and might therefore be having problems managing his finances.

I accept that the defaults on Mr M's credit report were historic, and there were no CCJs or bankruptcies. I also accept that Mr M was only applying for £500 and he apparently had a reasonable level of disposable income available to meet the repayments. But overall this was still an expensive loan, repayable over a long period. Given this and Mr M's credit report showing 'arrangements to pay' I would have expected Loans2Go to want to take further steps to gain a thorough understanding of Mr M's true financial position. So I am not persuaded that the checks that Loans2Go carried out before agreeing to the loan were reasonable and proportionate in the particular circumstances.

So as well as asking Mr M about his income and expenditure, I think Loans2Go should have looked further into Mr M's financial circumstances – for example by asking to see bank statements.

Mr M has provided us with copies of his bank statements leading up to his application to Loans2Go, so I can determine what better checks might have shown the lender at that time. Of course, different checks might show different things. But I think if Loans2Go had carried out what I consider to be proportionate checks, I think it's likely it would have discovered more about Mr M's financial position. In particular I think it more likely than not Loans2Go would have realised that Mr M was regularly gambling considerable amounts of money and was most likely financing his gambling by borrowing.

From what I've seen, Mr M was transferring money between bank accounts, and borrowing from other lenders, to support his gambling. Loans2Go says that Mr M didn't disclose his gambling when he applied for his loan. And had he disclosed his true financial status it may have assessed his application differently. Loans2Go says that as it thinks its checks were proportionate, it had no reason to request bank statements, so it is entitled to rely on what Mr M told it at the time.

I appreciate why Loans2Go holds this view. But as I've explained, given what it found out in its credit report, I think Loans2Go ought reasonably to have realised that for its checks to be reasonable and proportionate in the particular circumstances of this loan, they had to go further. I think Loans2Go should have been alerted by its credit report that Mr M might be having difficulties managing his finances and it ought reasonably to have sought a more detailed understanding of his true financial position – to assess whether Mr M would be able to sustainably repay his loan over the full loan term.

I think if Loans2Go had carried out more detailed, independent checks on Mr M's finances it ought reasonably to have realised that he was most likely borrowing as a result of his gambling – and that he would also most likely need to borrow elsewhere to repay his loan from Loans2Go. I would have expected Loans2Go to realise that it was unlikely that Mr M would be able to sustainably repay his loan. So it ought reasonably to have concluded that it was not appropriate to lend to him.

*Did Loans2Go treat Mr M unfairly in any other way?*

Mr M has complained about the interest rate on his loan. However, I think it's likely that Mr M was aware he was taking a high cost loan at the time and I think the rate of interest being charged on his loan was in line with industry practice at the time.

Mr M has also complained about the way he has been treated by Loans2Go during some telephone conversations which he says has caused him anxiety and stress. Loans2Go have acknowledged that it could have done some things better. It has apologised and offered to reduce Mr M's account balance with a nominal amount of compensation. In the circumstances, I think this was a fair and reasonable offer from Loans2Go.

Overall, I don't think Loans2Go treated Mr M unfairly in some other way. But I don't think it should have agreed to provide the loan to him. So Loans2Go needs to put things right.

### **Putting things right**

I think it is fair and reasonable for Mr M to repay the principal amount that he borrowed, because he's had the benefit of that lending. But he has paid interest and charges on a loan that shouldn't have been provided to him. So I think Mr M has lost out and Loans2Go should put things right for him.

Loans2Go should:

- Remove all interest, fees and charges on the loan and treat all the payments Mr M made as payments towards the capital.
- If reworking Mr M's loan account results in him having effectively made payments above the original capital borrowed, then Loans2Go should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement\*.
- If reworking the account leaves an amount of capital still to be paid, then Loans2Go should try to agree an affordable repayment plan with Mr M, bearing in

mind its obligation to treat him positively and sympathetically in these discussions.

- Remove any adverse information recorded on Mr M's credit file in relation to the loan.

\*HM Revenue & Customs requires Loans2Go to deduct tax from this interest. Loans2Go should give Mr M a certificate showing how much tax it's deducted, if he asks for one.

### **My final decision**

My final decision is that I uphold Mr M's complaint and direct Loans 2 Go Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 4 December 2020.

Sharon Parr  
**Ombudsman**