

## **The complaint**

Mr K complains that Loans 2 Go Limited lent to him in an irresponsible manner.

## **What happened**

Mr K was given a single loan by Loans 2 Go. He borrowed £2,000 in September 2014 and agreed to repay the loan in weekly instalments over the following 18 months. The loan was secured against Mr K's vehicle.

Mr K faced problems repaying the loan and fell into arrears. Loans 2 Go instructed a recovery agent to repossess Mr K's vehicle. Whilst the repossession was underway Mr K's wife borrowed some money from a family member to repay the arrears and prevent the repossession going ahead. Mr K ultimately fully repaid the loan in May 2016.

Mr K's complaint has been assessed by one of our adjudicators. Although she thought the checks Loans 2 Go had done before agreeing the loan were proportionate, she thought those checks suggested it was unlikely that Mr K would be able to repay the loan in a sustainable manner. So she didn't think the loan should have been agreed and asked Loans 2 Go to pay Mr K some compensation.

Loans 2 Go didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process. If Mr K accepts my decision it is legally binding on both parties.

## **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/irresponsible lending complaints on our website and I've kept this in mind while deciding Mr K's complaint.

The rules and regulations at the time Loans 2 Go gave this loan to Mr K required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so Loans 2 Go had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Mr K. In practice this meant that Loans 2 Go had to ensure that making the repayments wouldn't cause Mr K undue difficulty or adverse consequences. In other words, it wasn't enough for Loans 2 Go to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Mr K.

Checks also had to be “proportionate” to the specific circumstances of the loan application. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking.

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 repayments to credit from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the *longer* the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should’ve been for a given 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 Loans 2 Go did what it needed to before agreeing to lend to Mr K.

Loans 2 Go gathered some information from Mr K before it agreed the loan. It asked him for details of his income, and his normal expenditure. It also asked Mr K for a copy of his bank statements and it says it checked his credit file. Although I haven’t seen the results of that credit check I’m not aware of any adverse information at that time that might have caused additional concerns to the lender.

Mr K was entering into a significant commitment with Loans 2 Go. He would need to make weekly repayments for a period of eighteen months. So I think it was reasonable for Loans 2 Go to gather, and independently check, some detailed information about Mr K’s financial circumstances before it agreed to lend to him. I think the checks Loans 2 Go did, by asking Mr K for copies of his bank statements, achieved that objective. I think that the checks Loans 2 Go did were proportionate.

But simply doing proportionate checks isn’t always enough. A lender also needs to react appropriately to the information shown by those checks. So I’ve looked carefully at the bank statements Mr K gave to Loans 2 Go, and some of his bank statements from a couple of months before, to see what Loans 2 Go should have concluded from its checks.

Even the most cursory examination of Mr K’s bank statements would reveal that he was making a significant number of transactions to an online gambling company. I think that should have caused some concerns to the lender, and prompted further checks.

It is entirely reasonable that consumers should be free to spend any spare income how they choose – I am not suggesting that Loans 2 Go should make some form of value judgement about how Mr K was choosing to spend his money. But the nature and patterns of Mr K’s spending do not suggest that he is able to easily control that spending. The gambling transactions, both on the statement that Loans 2 Go examined and on the statements from the months before that I looked at, all suggest that Mr K’s gambling expenditure represented a form of addiction. As an example – in the month before the loan was agreed Mr K had spent significantly more than his normal income on gambling transactions.

Loans 2 Go needed to ensure that Mr K would be able to repay his borrowing in a sustainable manner. I would normally expect that Loans 2 Go should reassure itself the repayments could be made from a consumer's income or savings. Here I don't think Loans 2 Go could be confident that would be the case. I think it would be most likely that Mr K would be reliant on winnings from his gambling activities in order to support his repayments.

I have considered that Loans 2 Go has said that Mr K settled the loan early, and that this was an indication that its decision to agree the loan was correct. A consumer being able to repay a loan early doesn't always mean that it has been lent responsibly – a consumer might borrow from another lender, or perhaps rely on gambling winnings, to make that repayment. Here Mr K ran up significant arrears, and was only able to stop his car being repossessed by borrowing from a family member. I don't think Loans 2 Go can reasonably draw any comfort from Mr K's repayment record on this loan.

So on balance I don't think it was reasonable for Loans 2 Go to conclude, from the information that proportionate checks showed, that Mr K would be able to repay the loan in a sustainable manner. So I don't think Loans 2 Go should have given this loan to Mr K, and now needs to pay him some compensation.

### **Putting things right**

I don't think Loans 2 Go should have agreed to lend to Mr K. So Loans 2 Go should;

- refund all the interest and charges (including any charges relating to the attempted repossession of the vehicle) that Mr K paid on the loan.
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†
- remove any adverse information recorded on Mr K's credit file in relation to the loan.

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

### **My final decision**

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 23 December 2020.

Paul Reilly  
**Ombudsman**