

The complaint

Mr A has complained that Loans 2 Go Limited lent to him irresponsibly. He's also complained about the level of interest that was charged on his loans.

What happened

Mr A was given five loans by Loans2Go between in June 2015 and June 2019. I understand the first four loans were logbook loans, each secured against a vehicle that Mr A owned.

A summary of Mr A's borrowing is as follows:

Loan	Date Taken	Instalments	Amount
1	19/06/2015	18	£750.00
2	16/02/2016	18	£2,000.00
3	18/05/2016	18	£3,000.00
4	28/09/2016	18	£1,800.00
5	17/06/2019	78wks	£800.00

One of our adjudicators has looked into the complaint. She didn't think Mr A's complaint about the first loan should be upheld. But she did think Loans2Go shouldn't have provided Mr A with loans 2 to 5 and she asked the lender to put things right. Loans2Go accepted the adjudicator's assessment about loan 5 but it didn't agree with her assessment of loans 2 to 4. As the complaint hasn't been settled, it 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 considering unaffordable and irresponsible lending complaints on our website - including the key relevant rules, guidance, good industry practice and law. And I've considered this approach when deciding Mr A's complaint.

I think there are overarching questions I need to consider in order to decide what's fair and reasonable in the circumstances of this particular complaint:

- Did Loans2Go complete reasonable and proportionate checks to satisfy itself that Mr A would be able to repay his loans in a sustainable way? If so, did it make a fair lending decision? If not, what would reasonable and proportionate checks have shown each time?
- Did Loans2Go act unfairly or unreasonably in some other way?

Loans2Go needed to take reasonable steps to ensure that it didn't lend irresponsibly. This means that it had to carry out reasonable and proportionate checks each time to satisfy itself that Mr A could repay the loans in a sustainable way. 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 repayment amounts and the consumer's overall financial circumstances.

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); and
- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

I've carefully considered all the evidence, arguments and information I've seen about this matter and what it means for Mr A.

Did Loans2Go complete reasonable and proportionate checks each time?

Loan 1

Loans2Go carried out some checks before it gave the first loan to Mr A which included asking for details of his income and expenditure. It also reviewed some payslips and acquired a credit check. I've seen only a summary of the information that Loans2Go gathered at the time, but I haven't seen anything which I think ought reasonably to have caused Loans2Go any additional concerns about Mr A's financial position before he took the first loan.

On balance, I don't think it would've been proportionate, at this stage of the lending relationship, for Loans2Go to ask Mr A for the amount of information that would be needed to show the lending was unsustainable before agreeing the first loan. I don't think greater checks were appropriate at the time. I don't think it would have been proportionate for Loans2Go to have carried out more in-depth checks at this point - for example, by asking to see copies of Mr A's bank statements. So Loans2Go would not have been aware if Mr A might have any difficulty repaying his loan in a sustainable manner. Taking everything I've seen into account, I am not upholding Mr A's complaint about the first loan.

Loans 2 - 3

Loans2Go has only been able to provide limited information about the checks that it carried out for the second and third loans. This is understandable, given the time that has passed.

On the face of it, Loans2Go may have calculated that Mr A had sufficient disposable income to afford the monthly repayments. But I think Loans2Go focussed its calculation of whether the loans were affordable for Mr A on a pounds and pence basis. And as I've already explained, the lender was required to establish whether the borrower could *sustainably* meet his loan repayments – not just whether the loan payments were technically affordable on a strict pounds and pence calculation. Of course the loan payments being affordable on this basis might be an indication that a consumer could sustainably make the repayments. But it doesn't automatically follow that this is the case. And as a borrower shouldn't have to borrow further in order to make their payments, it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to sustainably make their repayments if it is on notice that they are unlikely to be able to make their repayments without borrowing further.

Mr A was increasing the amount he borrowed for the second and third loan. Loans2Go was providing Mr A with expensive loans, repayable over an extended period and the rules and guidance suggest that the risk of any credit not being sustainable directly relates to the amount of credit granted and the total charge for credit - relative to the customer's financial situation. Mr A also took his third loan on the same day that he repaid his second loan substantially early – which could have indicated that he was having difficulty managing his finances and needed to refinance rapidly.

Overall, I can't say from the limited information that I've seen, that I think the checks that Loans2Go carried out before it agreed to provide the second and third loans were reasonable or proportionate at the time. But as I've explained, I think in the circumstances Loans2Go would have wanted to gain a thorough understanding of Mr A's financial position before he took these loans.

Loan 4

Loans2Go has been able to provide the credit report it acquired when Mr A applied for his fourth loan. There is a small amount of adverse information on the report, which I think the lender might have expected to see, given the type of lending. Mr A applied for loan 4 about 10 days after repaying his third loan – again substantially early.

Loans2Go says that Mr A made all payments on time and settled all his loans early. And that there were no 'glaring indications' on his credit file of any potential inability to keep up with the contractual payments. I accept this might have been the case, and that the amount Mr A was borrowing with the fourth loan had reduced. I also accept the information in the credit report might not have raised concerns for the lender. But I think Mr A's emerging pattern of settling his loans early, only to return and borrow again shortly afterwards should have been of some concern to Loans2Go as it could have indicated that Mr A might be finding it difficult to manage his financial situation. Despite Mr A's apparent disposable income, he still had a need, after three previous loans which he'd repaid early, to take a fourth high cost loan over an extended term.

So by the fourth loan, I think Loans2Go ought to have questioned why, after being able to repay each of his previous loans early, Mr A still had a continuing need to rapidly borrow further high cost lending. And I think Loans2Go ought reasonably to have realised that for its checks to be reasonable and proportionate, it needed a better understanding of Mr A's true current financial position - to ensure that he could sustainably repay his fourth loan over the whole loan term.

Overall, in the circumstances, I think it would have been proportionate for the lender to obtain a more in depth understanding of Mr A's true financial position before it agreed to

provide loans 2 to 4 - to reasonably establish for itself whether continued lending was appropriate for this consumer at the time.

I think Loans2Go ought reasonably to have taken further steps each time to independently verify Mr A's circumstances. So as well as asking Mr A about his income and expenditure, and acquiring a credit report, I think Loans2Go should have looked further into his financial circumstances each time – for example by asking to see bank statements.

What would reasonable and proportionate checks have shown at the time?

Mr A has provided us with copies of his bank statements leading up to his applications for loans 2 to 4. Of course, different checks might show different things. But I think if Loans2Go had carried out what I consider to be proportionate checks each time, I think it's likely it would have discovered more about Mr A's financial position. In particular I think it more likely than not Loans2Go would have realised that Mr A was regularly gambling considerable amounts of money. I think Loans2Go ought reasonably to have realised that Mr A was most likely borrowing as a result of his gambling – and that he would also most likely need to borrow elsewhere to repay his loans. I would have expected Loans2Go to realise that it was unlikely that Mr A would be able to sustainably repay his loans. So it ought reasonably to have concluded that it was not appropriate to provide these loans to him.

In summary:

I don't think Loans2Go was wrong to provide the first loan to Mr A. So I am not upholding his complaint about loan 1.

But I don't think Loans2Go made a fair lending decision when it agreed to provide loans 2, 3 or 4 to Mr A. So I'm upholding his complaint about these loans.

Loan 5

Loans2Go has already accepted the adjudicator's view that it should not have provided loan 5 to Mr A. So I don't need to consider this loan any further, except to set out below what needs to happen next.

Did Loans2Go treat Mr A unfairly in any other way?

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

Overall, I've not seen anything which makes me think that Loans2Go treated Mr A unfairly in some other way.

But I don't think it should have agreed to provide loans 2, 3 or 4 to him. And Loans2Go has already accepted it ought not to have provided loan 5 to him. So Loans2Go needs to put things right in respect of loans 2 to 5.

Putting things right

I think it's fair and reasonable for Mr A 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 loans that shouldn't have been provided to him.

To put things right, Loans2Go should:

- Remove all interest, fees and charges on loans 2 to 5 and treat all the payments Mr A made as payments towards the combined capital amount;
- If Mr A has made payments above this combined capital amount then these should be refunded to him, along with simple interest at the rate of 8% per year on these amounts from the date they were paid to the date the complaint is settled*;
- If reworking the account still leaves an outstanding amount of capital to be paid, then Loans2Go should agree an affordable repayment plan with Mr A, bearing in mind its obligation to treat him positively and sympathetically in these discussions;
- Loans2Go might have already returned the relevant logbooks to Mr A, but if it has not done this, it should cancel the relevant bills of sale and return the V5 documents to Mr A once any outstanding capital has been repaid.
- Remove any negative information from Mr A's credit file in relation to loans 2 to 5, once settled.

*HM Revenue & Customs requires Loans2Go to take off tax from this interest. Loans2Go must give Mr A a certificate showing how much tax it has taken off if he asks for one.

My final decision

My final decision is that I partly uphold Mr A'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 A to accept or reject my decision before 29 January 2021.

Sharon Parr
Ombudsman