

Complaint

Mr F has complained that Loans 2 Go Limited (“L2G”) provided him with an unaffordable loan. He says the proper affordability checks weren’t considered.

Background

L2G provided Mr F with a loan of £1,000.00 in August 2019. This loan had an APR of 1,013.2% and an 18-month term. This all meant the total amount repayable of £4,114.08 was due to be repaid in 18 instalments of £228.56.

One of our adjudicators looked at this complaint and thought that L2G unfairly provided this loan as proportionate checks would have shown it was unaffordable. L2G disagreed with our adjudicator and asked for an ombudsman to review the complaint.

My findings

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 general approach to complaints about unaffordable/irresponsible lending - including the key rules, guidance and good industry practice - on our website. And I’ve referred to this when deciding Mr F’s complaint.

Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Mr F’s complaint. These two questions are:

1. Did L2G complete reasonable and proportionate checks to satisfy itself that Mr F would be able to repay his loan in a sustainable way?
 - o If so, did it make a fair lending decision?
 - o If not, would those checks more likely than not have shown that Mr F would’ve been able to do so?
2. Did L2G act unfairly or unreasonably in some other way?

Did L2G complete reasonable and proportionate checks to satisfy itself that Mr F would be able to repay his loan in a sustainable way?

L2G provided this loan while it was authorised and regulated by the Financial Conduct Authority (“FCA”). The rules and regulations in place required L2G to carry out a reasonable and proportionate assessment of Mr F’s ability to make the repayments under this agreement. This assessment is sometimes referred to as an “affordability assessment” or “affordability check”.

The checks had to be “borrower” focused – so L2G had to think about whether repaying the loan would cause significant adverse consequences *for Mr F*. In practice this

meant that L2G had to ensure that making the payments to the loan wouldn't cause Mr F undue difficulty or adverse consequences.

In other words, it wasn't enough for L2G to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr F. 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. Even for the same customer, a proportionate check could look different for different applications.

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); 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).

There may also be other factors which could influence how detailed a proportionate check should've been for a given loan application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances.

I've carefully thought about all of the relevant factors in this case.

Were L2G's checks reasonable and proportionate?

L2G says that it carried out an online income and expenditure assessment with Mr F prior to providing him with this loan. It also carried out a credit check. Mr F confirmed that he was earning around £1,500.00 a month and had expenditure of £700 a month. L2G added an additional amount to this to reflect what it saw on his credit file. This left him with around £650 a month which was more than enough to cover the payments to this loan.

I've carefully considered what L2G has said. But the credit check it carried out showed that Mr F had taken out significant amounts of short-term lending in the lead up to this application. So the information on Mr F's credit file was significantly at odds with someone who had a monthly disposable income of £650.

Bearing all of this in mind, I think that L2G needed to take steps to verify Mr F's actual credit commitments and monthly expenditure instead of choosing to rely on an over optimistic calculation of his monthly disposable income primarily based on what he'd declared.

As I can't see that this L2G did do this, or in fact take any steps at all to address the mismatch between the disposable income it thought Mr F had and the information on his credit file, I don't think that the checks it carried out before providing Mr F with his loan were reasonable and proportionate.

Would reasonable and proportionate checks have indicated to L2G that Mr F would more likely than not have been unable to repay this loan?

As reasonable and proportionate checks weren't carried out before this loan was provided, I can't say for sure what they would've shown. So I need to decide whether it is more likely than not that a proportionate check would have told L2G that Mr F would've been unable to sustainably repay this loan.

L2G was required to establish whether Mr F could make his loan repayments without experiencing significant adverse consequences – not just whether the loan payments were technically affordable on a strict pounds and pence calculation.

I've carefully considered the information provided. Having done so, it's clear Mr F was in a cycle of short-term lending. And it's clear that he was using such loans to supplement his income and repay previous debts. I also think that further scrutiny of Mr F's financial position would have led to L2G discovering the reasons behind why his debt had become problematic.

Bearing all of this in mind, I'm satisfied that reasonable and proportionate checks would more likely than not have demonstrated that Mr F would not have been able to make the repayments to this loan without borrowing further and/or suffering undue difficulty. And, in these circumstances, I find that reasonable and proportionate checks would more likely than not have alerted L2G to the fact that Mr F was in no sort of position to make the payments on this loan without suffering significant adverse consequences.

Did L2G act unfairly or unreasonably towards Mr F in some other way?

I've carefully thought about everything provided. And I've carefully thought about what Mr F has said about the clarity of the information provided. But having looked at the documentation I'm satisfied that it is clear the term of the loan is 18-months. I'd also add that L2G's information also sets out just how eye-wateringly expensive the loan is too.

So, as this is the case, and as I've not seen anything else in the file to suggest that it did, I don't think L2G acted unfairly or unreasonably towards Mr F in some other way.

Did Mr F lose out as a result of L2G unfairly providing her with this loan?

As Mr F is being expected to pay interest and charges on a loan that he shouldn't have been provided with, I'm satisfied that he has lost out as a result of what L2G did wrong.

So I think that L2G needs to put things right.

Fair compensation – what L2G needs to do to put things right for Mr F

Having thought about everything, L2G should put things right for Mr F by:

- removing all interest, fees and charges applied to the loan from the outset. Any payments Mr F has made should be deducted from the £1,000.00 he was originally lent.

I'd also remind L2G of its obligation to exercise forbearance if it intends to collect on the outstanding balance on Mr F's account, once all adjustments have been made, and it's the case that he is experiencing financial difficulty.

My final decision

For the reasons I've explained, I'm upholding Mr F's complaint. Loans 2 Go Limited needs to put things right in the way set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 11 February 2021.

Jeshen Narayanan
Ombudsman