

The complaint

Mr W complains that the loan he had from Loans 2 Go Limited was unaffordable to him.

What happened

Mr W took out a fixed sum loan with Loans 2 Go on 17 May 2019. He borrowed £500 and was due to repay £114.28 monthly for 18 months, finishing on 30 October 2020.

Mr W says that he believes Loans 2 Go took advantage of his situation and offered him a loan with a very high interest rate. He says that if Loans 2 Go had done appropriate checks it would have known the loan was unaffordable to him.

Loans 2 Go says it verified Mr W's financial disclosures by checking with a credit agency whether his income was sufficient to afford the loan. It says it also revises the declared expenditure upwards if it deems the figures are unreasonable. Loans 2 Go says that although it adjusted both of Mr W's figures, it still found the loan repayments to be affordable. It offered to discuss a suitable repayment arrangement for the outstanding balance.

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 was likely to have found Mr W spent a significant amount of money on online gambling as well as commitments to other short-term and high cost credit.

As a result, our adjudicator recommended that Loans 2 Go should deduct any payments Mr W made from the principal. It should then refund any overpayments (plus 8% statutory interest) or attempt to arrange a suitable repayment plan for the balance. She said Loans 2 Go should also ensure that any negative information about the loan is removed from Mr W's credit file.

Loans 2 Go responded to say, in summary, that Mr W's credit report showed only two accounts in arrears and no current short-term lending. So, it says, it had no reason to request further information prior to making the lending decision.

My provisional findings

I issued a provisional decision to Mr W and to Loans 2 Go on 27 January 2021. I summarise my findings here.

I wasn't satisfied Loans 2 Go's checks went far enough because:

- The repayments on the loan were around £114 per month and Mr W needed to be able to sustain these for 18 months;
- Loan 2 Go's analysis showed potential discrepancies between its checks and Mr W's declared income and credit expenditure;
- The credit check showed:
 - Mr W had two defaults on his credit file, the latest of which was from early 2018;
 - Two active loans, with scheduled monthly payments of around £170, even though Mr W had declared he had no expenditure on credit;
 - The short-term loan was four payments in arrears;
 - Mr W was more than £300 over his £750 overdraft limit;

I considered there were clear indications that Mr W was already in financial difficulties and may not have been in a position to take on further credit. Although both the defaulted accounts had been settled, he was clearly struggling to repay current creditors as shown by the arrears and the excessive overdraft.

For the above reasons, I considered Loans 2 Go's checks should have included a full review of Mr W's financial circumstances, including further verification of his income and expenditure.

So, I had a look at Mr W'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 Mr W's finances in more depth.

Overwhelmingly, the bank statements showed that Mr W had a serious gambling habit. In just one month between 9 April 2019 and 8 May 2019, Mr W spent around £3,600 on gambling transactions. This was almost three times his monthly income. Other bank statements showed significant gambling expenditure in both the month prior to this and the month afterwards. Indeed, I saw that Mr W gambled his Loans 2 Go loan (and a bit more) almost immediately upon receipt.

So I was satisfied reasonable and proportionate checks would have shown it was irresponsible to lend to Mr W and, indeed, by doing so, Loans 2 Go enabled Mr W's gambling addiction and, as a result, worsened his financial position.

Ordinarily, my decision would have been that Mr W should repay the capital he borrowed, but given the extreme circumstances of this case, I considered a fairer outcome would be to write off the balance Mr W would otherwise owe. I saw from the latest loan statement, that Mr W had paid £228.56 towards this loan, which meant the remaining £271.44 capital should be written off, along with the outstanding interest.

I could not conclude that Loans 2 Go had acted unfairly or unreasonably in any other way but I found that Loans 2 Go was wrong to lend to Mr W and that the loan should now be closed, as described above.

Mr W responded to say he had nothing further to add.

Loans 2 Go did not respond to the provisional decision.

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.

As neither party provided any additional information, I see no reason to depart from my provisional decision.

My final decision

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

- Write off the loan, with nothing further to pay;
- Remove any negative information recorded on Mr W's credit file regarding the loan.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 31 March 2021.

Amanda Williams

Ombudsman