DRN-2667313

The complaint

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

What happened

Mr L was given four loans by Loans 2 Go between May 2018 and July 2019. All of his loans have been fully repaid. A summary of his borrowing from Loans 2 Go is as follows;

Loan Number	Borrowing Date	Repayment Date	Loan Amount
1	16/05/2018	24/05/2018	£ 250
2	07/06/2018	18/07/2018	£ 250
3	18/10/2018	Refinanced	£ 250
4	07/07/2019	19/09/2020	£ 358

As can be seem from the above table, Mr L cancelled the first two loans shortly after taking them out. He has confirmed that he only wishes to complain about loans 3 and 4.

Mr L's complaint has been assessed by one of our adjudicators. She didn't think that the checks Loans 2 Go had performed before agreeing the loans had been proportionate. And she thought that better checks would have shown Mr L was facing problems managing his money. So she didn't think that loan 3 or loan 4 should have been agreed. She asked Loans 2 Go to pay Mr L 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 L 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 L's complaint.

The rules and regulations at the time Loans 2 Go gave these loans to Mr L 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 L. In practice this meant that Loans 2 Go had to ensure that making the repayments wouldn't cause Mr L 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 L.

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 L.

Loans 2 Go gathered some information from Mr L before it agreed the loans. It asked him for details of his income, and his normal expenditure. It then used some industry statistical data to revise Mr L's declared expenditure upwards. And it checked his credit file to assess how much he was repaying to other creditors and how he had managed any credit in the past.

Mr L was entering into significant commitments with Loans 2 Go. He would need to make monthly repayments for a period of 18 months. So I think it was right that Loans 2 Go wanted to gather, and independently check, some detailed information about Mr L's financial circumstances before it agreed to lend to him. I think that the checks Loans 2 Go did achieved that aim. I think that the checks Loans 2 Go did were proportionate.

But simply performing proportionate checks isn't always enough. A lender also needs to react appropriately to the information shown by those checks. Those results might sometimes lead a lender to undertake further enquiries into a consumer's financial situation. Or, in some cases, the results might lead a lender to decline a loan application outright. And that is what I think should have happened in this case – I think Loans 2 Go needed more information to support its lending decisions.

I think Loans 2 Go might have already had some concerns about Mr L's finances from his earlier behaviour in taking loans and repaying them very shortly afterwards. That might indicate someone who was not in control of their financial situation. And the credit check information Loans 2 Go received when Mr L asked for loan 3 showed that he was heavily dependent on credit.

I appreciate that the credit check didn't show much evidence of late or missed repayments. But, as Loans 2 Go will know, it is important that a consumer is able to make any repayments in a sustainable manner. The lack of any late or missed repayments isn't always evidence of sustainable repayments.

When he asked for loan 3, the credit check showed that Mr L had at least four active credit card accounts. And each of those accounts was at, or very close to, the limit on the card. And Mr L also had three active short-term loans that had been taken little more than a month before he asked to borrow from Loans 2 Go. I think that presented a picture of a consumer who was facing serious problems managing their money.

That in itself might have been a reason for Loans 2 Go to decline Mr L's application. But at the very least I think it should have led the lender to ask Mr L for more evidence about his financial situation. So I've looked at Mr L's bank statements, and what he's told us about his finances, to see what additional checks might have shown Loans 2 Go.

At this stage I want to be clear that I am not suggesting that this is the exact check that Loans 2 Go should have carried out. I do think Loans 2 Go needed further evidence to explain what was happening with Mr L's finances. And looking at his bank statements is one way of achieving that although there are of course many other ways that level of detail could be established. But I think that by looking at Mr L's bank statements I can get a good idea of what additional checks might have shown.

Mr L's bank statements show that he was spending regularly and heavily on online gambling transactions. And he was funding that spending from the borrowing that I have noted above, and that was shown on the credit check. I think that a responsible lender, having seen that information, would conclude that it was unlikely that Mr L could repay any borrowing in a sustainable manner. So I don't think Loans 2 Go should have given this loan to Mr L.

Just over eight months later – less than halfway through the agreed loan term – Mr L asked to refinance his loan and take some additional borrowing. The results of the credit check that Loans 2 Go performed showed little improvement in his financial position. He still had loans outstanding and several credit card accounts at, or near, their limits. So I think additional checks would have been appropriate here also.

Mr L's bank statements showed that he continued his spending on online gambling transactions. And that this spending was still funded by borrowing from other lenders. So, for the same reasons as before, I don't think Loans 2 Go should have given this loan to Mr L either.

In summary, I think the results of Loans 2 Go's checks should have raised concerns about Mr L's finances. Those might have led to Loans 2 Go declining his applications. But at the very least they should have led to Loans 2 Go gathering further evidence from Mr L. And I think that additional information would have led to Loans 2 Go declining Mr L's loan applications. So Loans 2 Go needs to pay Mr L some compensation.

Putting things right

I don't think that Loans 2 Go should have agreed to lend to Mr L in either October 2018 or in July 2019. So for those loans, Loans 2 Go should;

- refund all the interest and charges Mr L paid on loans 3 and 4

- 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 L’s credit file in relation to loans 3 and 4

† HM Revenue & Customs requires Loans 2 Go to take off tax from this interest. Loans 2 Go must give Mr L 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 L’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 L to accept or reject my decision before 13 August 2021.

Paul Reilly
Ombudsman