DRN-2724203

The complaint

Miss R says Loans 2 Go Limited lent irresponsibly to her.

What happened

Miss R took out three loans from Loans 2 Go, as set out below.

loan	taken out	repaid	value, £	monthly repayment, £	monthly instalments
1	01/12/2017	01/11/2018	500	96.67	12
2	14/07/2018	22/12/2018	350	79.29	18
3	22/12/2018	-	519.46*	117.69	18

**£250 received by Miss R, the balance settled loan 2*

Loan 1 was a logbook loan, so it was given on the basis that Miss R provided Loans 2 Go with a bill of sale for her car. This meant that if Miss R didn't make her loan repayments, Loans 2 Go could potentially recover its losses through the sale of the vehicle.

Loans 2 and 3 were unsecured instalment loans.

Miss R complains that the loans were not affordable for her; Loans 2 Go didn't explain how the interest was applied, and the interest payments were three times the value of each loan. And it wouldn't set up a repayment plan when she having problems repaying loan 3.

Our adjudicator didn't think Loans 2 Go had completed proportionate checks. Had it done so, it would have seen Miss R was spending a significant proportion of her income on gambling when she applied for loans 1 and 2, and in excess of her income by the time she applied for loan 3. So the adjudicator concluded it was unlikely Miss R would have been able to sustainably repay her loans and Loans 2 Go was wrong to have given them.

Loans 2 Go disagreed, saying in summary, it completed income and expenditure checks for each loan verifying the data with third party sources. In each instance it was not wrong to lend to Miss R as she had sufficient disposable income to afford the repayments.

I reached the same conclusion as the adjudicator but for slightly different reasons. So I issued a provisional decision (and extract follows and forms part of this final decision) to give everyone a chance to comment before I issued my final decision. I asked for any comments or new evidence by 8 April 2021. Both parties responded ahead of this deadline.

Extract from my provisional decision

Loans 2 Go asked for some information from Miss R before it approved her loans. It asked for details of her income, normal monthly living costs (including rent, living and travel costs). It noted Miss R lived with her parents. It also checked Miss R's credit file to understand her existing monthly credit commitments and credit history. From these *checks combined Loans 2 Go concluded Miss R had enough monthly disposable income to afford to repay each loan.*

For loan 1 I'm minded to conclude these checks were proportionate. But I am not satisfied Loans 2 Go adequately responded to the information it had gathered. From Miss R's credit file it could see that Miss R had recently set up arrangements to pay on six different credit products and had one outstanding payday loan. So I think there were clear indications that Miss R's finances were under pressure as she was already unable to meet her contractual repayments on a number of loan and credit card agreements. I also think Loans 2 Go ought to have realised it was worth further consideration that Miss R was needing to borrow £500 - at a high cost and secured against her car - given it had concluded she had a monthly disposable income of over £500. So it wasn't fair for Loans 2 Go to go ahead and lend on the basis on the information it had.

As our adjudicator set out, any further investigation into Miss R finances would likely have shown that she was spending a very high proportion of her income on gambling. So it would have realised that she was highly unlikely to be able to make her loan repayments without experiencing significant adverse consequences – and this is what it was required to do as CONC 5.3.1G states:

1. In making the creditworthiness assessment or the assessment required …, a firm should take into account more than assessing the customer's ability to repay the credit.

2. The creditworthiness assessment and the assessment required … should include the firm taking reasonable steps to assess the customer's ability to meet repayments under a regulated credit agreement in a sustainable manner without the customer incurring financial difficulties or experiencing significant adverse consequences.

So, in summary, I don't think Loans 2 Go made a fair lending decision using the information it had gathered when it gave Miss R her first loan.

For loans 2 and 3 I don't think the checks carried out were proportionate or borrower focused. It hasn't shared the results of any credit check that it completed for loan 2 so I can't know what that indicated. But Miss R applied for loan 2 whilst she was still repaying the first loan (I note she had a repayment declined on loan 1 two months prior), and it was for an 18-month term. So although the monthly repayments were quite low as a percentage of her income, Loans 2 Go needed to be sure Miss R could sustainably make those repayments for that period of time. Overall, I think Loans 2 Go should at this stage have made further checks to independently verify Miss R's overall financial situation. The fact there was a variance between the expenses Miss R had declared and Loans 2 Go's estimation of the same, particularly for loan 3, further supports this finding.

I have looked at copies of Miss R's to bank statements to see what better checks would have shown. I'm not saying Loans 2 Go needed to have done this, but it's one way to understand what a fuller financial review might have shown.

As the adjudicator set out in detail, the bank statements showed Miss R was spending a very high proportion of her income on gambling at the time she applied for loan 2 and was also using high-cost short-term loans, suggesting she was having problems managing her money. So I think Loans 2 Go ought to have realised there was a high risk Miss R would not be able to make the repayments without having a significant adverse impact on her financial situation. Similarly when Miss R applied for loan 3 - to refinance loan 2 and extend her borrowing over a further 18 months - better checks would have shown Loans 2 Go that by this stage Miss R was spending over twice her monthly *income on gambling transactions. And she was still using high-cost short-term loans. So I don't see that it can argue, as a responsible lender, that it wasn't wrong to lend to Miss R. She went on to have problems with the repayments of loan 3 in the first month of borrowing.*

It follows I think Miss R has lost out as a result of Loans 2 Go's decisions. In response to the adjudicator's view Loans 2 Go set out why its affordability checks were sufficient; what they showed; how they verified certain data and therefore why they went on to lend. But this focuses only on the pounds and pence affordability of the loans, and it was obliged to also make sure Miss R could sustainably repay her loans – so without borrowing further or suffering any other adverse financial impact. As I've set out above, I don't find it did this and so I am planning to uphold Miss R's complaint.

Did Loans 2 Go act unfairly or unreasonably towards Miss R in some other way?

I don't find that it did, I'll explain why. Miss R says it didn't explain how the interest would be applied, but I can see this was set out in the pre-contract credit information and the loan agreements. Miss R also complains that the interest payable was three times the amount she borrowed. But Miss R had to actively engage in the application process for each loan, so I think it's likely that she was aware of what she was agreeing to pay. I haven't seen anything which makes me think that Loans 2 Go treated Miss R unfairly or breached industry practice regarding interest charges. But in any event, the interest and charges paid will be refunded as I've concluded these loans shouldn't have been given.

Miss R also says Loans 2 Go wouldn't agree a repayment plan with her. But its records show it asked if she could settle half of her arrears on loan 3, and Miss R was due to call back to confirm one way or the other. I can't see she did this as she'd committed to, instead submitting her affordability complaint. So I can't fairly find Loans 2 Go did anything wrong in this regard.

I then set out what Loans 2 Go would need to do to put things right if I upheld the complaint.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

Loans 2 Go responded to my provisional decision saying it agreed with the conclusion and had no information to add.

Miss R also confirmed she had no more information to provide.

As neither party submitted new evidence or comments it follows I have no reason to change the findings or outcome set out in my provisional decision. I am upholding Miss R's complaint and Loans 2 Go must now put things right.

Putting things right

It's fair and reasonable for Miss R to repay the capital that she borrowed, because she had the benefit of that money. But she has paid interest and charges on loans that shouldn't have been provided to her.

It seems Loans 2 Go hasn't sold the outstanding debt. But if it has it should buy it back if it is able to do so and then take the following steps. If Loans 2 Go is not able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below.

It should:

- For loan 1 remove all interest, fees and charges from the loan and treat all the payments Miss R made as payments towards the capital. If it hasn't already done so, Loans 2 Go should revoke the bill of sale and return any vehicle documentation.
- For loans 2 and 3, add up the total amount of money Miss R received as a result of being given both loans and treat all the payments she made as payments towards the capital.
- If reworking Miss R's loan accounts results in her having effectively made payments above the original capital borrowed, then Loans 2 Go should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- If reworking the accounts leaves an amount of capital still to be paid on loan 3, then Loans 2 Go should work to agree an affordable repayment plan with Miss R, bearing in mind its obligation to treat her positively and sympathetically in these discussions. Loans 2 Go should not pursue any outstanding balance made up of capital it has already written-off.
- Remove any adverse information recorded on Miss R's credit file in relation to loans 1 and 2, and loan 3 once settled.

*HM Revenue & Customs requires Loans 2 Go to deduct tax from this interest. Loans 2 Go should give Miss R a certificate showing how much tax it's deducted, if she asks for one.

My final decision

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss R to accept or reject my decision before 26 April 2021.

Rebecca Connelley
Ombudsman