DRN-2733623

The complaint

Miss W complains that three personal loans provided to her by Loans 2 Go Limited, trading as Loans 2 Go, ("L2G"), were unaffordable.

What happened

Miss W was given three loans by L2G from December 2019 to February 2020. The loans have been repaid. A summary of Miss W's borrowing history is as follows:-

Loan number	Date of loan	Date of loan repayment	Loan amount	Number of monthly repayments	Monthly repayment amounts
1.	20/12/2019	22/1/2020	£500	18	£114.28
2.	7/2/2020	12/2/2020	£400	18	£91.42
3.	20/2/2020	12/6/2020	£500	18	£114.28

In its final response letter, L2G said that it had conducted a thorough affordability assessment prior to approving the loans. It considered Miss W's declared income which it verified via an income verification tool and it also reviewed Miss W's credit file. L2G also considered Miss W's declared expenditure, increased this following a review of her application, in addition to her credit file, and added a buffer of 10% of her declared income to her expenditure, as a buffer to account for any fluctuations in her monthly income or expenditure. After doing this, L2G said that the loan repayments on each loan would still have been affordable. L2G took into consideration all the available information whilst calculating the affordability of the loans taken out with it, and it was determined that Miss W had enough disposable income to afford her contractual instalments.

Our adjudicator's view

Our adjudicator didn't recommend that the complaint should be upheld. With regard to Loan 1, he thought that L2G's credit checks indicated that Miss W may've been experiencing financial difficulties. And he thought it would've been proportionate for L2G to attempt to verify Miss W's income and outgoings, in order to ensure the loan would be affordable. The adjudicator had reviewed Miss W's bank statements but thought that Loan 1 still appeared to be affordable. The adjudicator didn't think Loans 2 and 3 were unaffordable based on L2G's checks.

Miss W disagreed. She responded to say that she had a number of loans with other lenders and was reliant on borrowing. She said that all her previous complaints against lenders were upheld and so may have been removed from her credit file. She used L2G with its such high interest rates because she was desperate and was borrowing to fund debt and gambling. Miss W said that more checks should have been done by L2G including checking her bank statements and credit file.

As this complaint hadn't been resolved informally, it was passed to me, as an ombudsman, to review and resolve.

my provisional decision

After considering all the evidence, I issued a provisional decision on this complaint to Miss W and to L2G on 25 March 2021. I summarise my findings:

I'd noted that Miss W had referred to decisions by other lenders. But I explained that we assessed each case on its own merits and it wasn't appropriate to compare the outcomes of complaints as the circumstances could be very different.

I'd said that when L2G lent to Miss W the regulator was the Financial Conduct Authority and relevant regulations and guidance included its Consumer Credit Sourcebook (CONC).

L2G was entering into a regulated credit agreement. So, it had to carry out a reasonable assessment of Miss W's creditworthiness before it entered into the agreement. This meant that L2G had to consider both the risk to it that Miss W wouldn't make the repayments under the agreement when due, and the risk to Miss W of not being able to make these repayments.

In particular, L2G had to consider Miss W's ability to make repayments under the agreement as they fell due over the life of the agreement, without her having to borrow to meet the repayments, without her failing to make any other repayment she had a contractual or statutory duty to make, and without the repayments having a significant adverse effect on her financial situation.

The rules didn't set out any specific checks which must be completed to assess creditworthiness. But the lender should take into account the borrower's income (over the full term of the loan) and their ongoing expenditure for living expenses and other debts. Whilst it was down to the lender to decide what specific checks it wished to carry out these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments and the total cost of the credit. So, a lender's assessment of creditworthiness would need to be flexible and what was appropriate for one person might not be for another. And what might be sufficient for a borrower in one circumstance might not be so for the same borrower in other circumstances.

In general, I'd expect a lender to require more assurance the greater the potential risk to the consumer of not being able to repay the credit in a sustainable way. So, for example, I'd expect a lender to seek more assurance by carrying out more detailed checks

- the lower a consumer'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 period of time a borrower would be indebted for (reflecting the fact that the total cost of credit was likely to be greater and the borrower would be required to make repayments for an extended period).

Bearing all of this in mind, in coming to a decision on Miss W's case, I'd considered the following questions:

- Did L2G complete reasonable and proportionate checks when assessing Miss W's loan applications to satisfy itself that she would be able to repay the loans in a sustainable way? If not, what would reasonable and proportionate checks have shown?
- Did L2G make fair lending decisions?

Did L2G complete reasonable and proportionate checks when assessing Miss W's loan applications to satisfy itself that she would be able to repay the loans in a sustainable way?

As set out above, L2G gathered some information from Miss W about her income and expenses before it agreed each loan. It also carried out a credit check.

Loan 1

Loan 1 was for £500. The interest rate was 207.6% (1,013.2% APR). The loan was to be repaid over 18 months with monthly repayments of £114.28. If Miss W made each payment when it was due, she'd pay £2,057.04 in total.

I'd reviewed L2G's credit checks before Loan 1. The lender would have been aware from these that Miss W wasn't in an Individual Voluntary Arrangement, she wasn't bankrupt and there were no county court judgements against her. There were also no defaulted accounts in the six months prior to the loan application.

But, L2G would also likely have seen that Miss W's current account had an overdraft limit of £500 but her overdrawn balance was only £49 less than this. She had a credit card on which the balance was £49 less than the £200 credit limit. In addition, this account had been subject to an arrangement to pay for the six months prior to Miss W's application for Loan 1. I'd noted that L2G's file notes showed that it had no concerns about the arrangement to pay. I also noted that Miss W had repaid a short term loan for £200 a month earlier but this account was also subject to an arrangement to pay for the five months prior to repayment. I thought that two accounts each subject to a recent arrangement to pay ought to have reasonably caused concerns.

I also thought that L2G would likely have seen that Miss W had been continuously borrowing several loans for large amounts totalling around £39,000 (according to Miss W's credit report) for around 21 months. I thought this showed a reliance on borrowing large amounts of credit. One loan (of around £6,145 according to Miss W's credit report) taken out in April 2018 was repaid in February 2019 by a loan (of around £10,370 according to Miss W's credit report) taken out the same day. The February 2019 loan was still being repaid at the time of Miss W's application for Loan 1. Another loan of £10,000 taken out in April 2018 had been repaid in October 2018 by a loan (of £9,925 according to Miss W's credit report) taken out on the day it was repaid. These four loans were provided by high cost credit providers. I thought Miss W's need to borrow again on the day a previous loan was repaid on two occasions suggested a need to fill a hole in her finances that was made by making repayments to a lender as well as to borrow additional credit. This wasn't a sustainable form of borrowing. The size of these loans relative to Miss W's income was also concerning.

Altogether, I thought the results of its credit checks should have caused L2G concerns as Miss W's finances appeared to be under pressure as shown especially by her relatively recent and ongoing need for large amounts of credit and her current account and one credit card being very near their respective credit limits. I didn't think L2G treated Miss W fairly when it agreed to lend to her based on the information it would have seen on its credit checks because this showed it was likely that agreeing more credit for her would simply add to her debt levels.

I also noted that L2G had said in its final response letter that:-

"When a lender carries out a credit search, the information it sees doesn't usually provide the same level of detail that a consumer's credit report will, and it is not necessarily up to date. A lender might only see a small portion of a borrower's credit file, or some data might be missing or anonymised. I am also aware that not all payday and short-term lenders

report to the same credit reference agencies. You may have taken other payday or short-term loans prior to the loan which may not have been identified by our credit check. This may explain any differences between the information provided by our credit check and your actual situation."

So, I could see that L2G was aware that its credit checks might not have revealed the full extent of Miss W's credit commitments.

L2G was also aware that Miss W was entering into an expensive loan agreement. In her application Miss W had declared a monthly income of £2,400 and total expenses of £604 including credit commitments of £251. Her declared living costs were £353 and it seemed that L2G had considered these to be low as it had increased her total expenses to £877.83. It also verified and reduced Miss W's monthly income to £1,232.20, which was just over half of the amount she'd declared. L2G added a buffer to Miss W's adjusted expenses equal to 10% of Miss W's verified income, to account for any fluctuations in her monthly income or expenditure.

But I thought L2G might have been concerned as to why someone with a relatively large amount of available income (according to Miss W's declared income and expenses) would need to borrow expensive credit. L2G was aware that Miss W's declared income and expenses left her with a disposable income of £1,796. This seemed unlikely given that she wanted to borrow £500.

Looking at everything in the round, I didn't think it was reasonable for L2G to rely on the information provided by Miss W without verifying it. I thought L2G should reasonably have taken steps to gain a more thorough understanding of Miss W's financial position in order to satisfy itself that she could repay the loan without having to borrow to meet the repayments, without failing to make any contractual or statutory payments and without the repayments having a significant adverse impact on her financial situation. It could have done this by, for example, requesting additional bank statements from Miss W, asking for copies of bills and/or receipts for her expenses and by asking her for more information about her existing credit commitments. L2G didn't say that it took steps to do this, other than to verify Miss W's income using an online income verification tool. So overall, I didn't think the checks L2G carried out on this occasion were reasonable and proportionate.

But that in itself didn't mean that Miss W's complaint should succeed. I also needed to be persuaded that what I considered to be proportionate checks would have shown L2G that Miss W couldn't sustainably afford Loan 1. So, I'd looked at Miss W's credit report and bank statements to see what better checks would have shown L2G.

Loan 2

Miss W repaid Loan 1 around a month after taking it out. I could see from Miss W's bank statements that it appeared to have been repaid with money lent by a friend. Miss W took out Loan 2 a little more than two weeks after repaying her previous loan. I thought L2G ought to have been concerned by her early repayment of Loan 1 and her need to borrow expensive credit again shortly after. That might be the sort of behaviour that would indicate that someone was facing problems managing their money. The loan amount had decreased to £400 but the new monthly loan repayments of £91.42 still needed to be repaid over 18 months. The interest rate was 207.6%, (1,013.1% APR). If Miss W made each payment when it was due, she'd pay £1,645.56 in total.

I'd reviewed L2G's credit checks before Loan 2. As Miss W's application for Loan 2 was made only six weeks after her application for Loan 1, the credit checks before the two loans were very similar and for similar reasons as for Loan 1 (in particular Miss W's apparent ongoing reliance on large amounts of credit), I thought the checks should have caused L2G concerns. I'd noted that the adjudicator said that L2G's checks indicated a possible improvement in Miss W's financial situation relative to Loan 1. But I didn't think this was necessarily the case. Whilst Miss W's total credit balances might have been lower, this wasn't reflected in her current account balance. Her current account had an overdraft limit of £500 but her overdrawn balance was only £3 less than this and higher than shown in the checks before Loan 1. And as I'd set out above, L2G's credit checks might not have revealed the full extent of Miss W's other credit commitments.

In her loan application Miss W had declared a monthly income of £1,640 and total expenses of £1,022 including credit commitments of £252. I thought L2G ought to have questioned Miss W about the large difference between the amounts declared for Loan 2 and Loan 1 just six weeks earlier. L2G had increased her total expenses to around £1,330. It also verified and reduced Miss W's monthly income to £1,425. L2G again added a buffer to Miss W's adjusted expenses equal to 10% of Miss W's verified income to account for any fluctuations in her monthly income or expenditure.

But I thought L2G might have again been concerned as to why someone with a relatively large amount of available income (according to her declared income and expenses) would need to borrow expensive credit. L2G was aware that Miss W's declared income and expenses left her with a disposable income of £618. This seemed unlikely given that she wanted to borrow £400. So, again in these circumstances I didn't think it was reasonable for L2G to rely on the information provided by Miss W without verifying it.

I again thought L2G should reasonably have taken steps to gain a more thorough understanding of Miss W's financial position in order to satisfy itself that she could repay the loan without having to borrow to meet the repayments, without failing to make any contractual or statutory payments and without the repayments having a significant adverse impact on her financial situation. I couldn't see that L2G took steps to do this, other than to verify Miss W's income using an online tool. So overall, I didn't think the checks L2G carried out on this occasion were reasonable and proportionate.

Loan 3

Miss W repaid Loan 2 five days after taking it out. I could see from Miss W's bank statement that it appeared to have been repaid from money she'd borrowed from another high cost credit provider two days earlier. She'd taken out Loan 3 eight days after repaying her previous loan. I thought L2G ought to have again been concerned by her early repayment of Loan 2 and her need to borrow expensive credit again shortly after. The loan amount had increased to £500 but the new monthly loan repayments of £114.28 still needed to be repaid over 18 months. The interest rate was 207.6%, (1,013.2% APR). If Miss W made each payment when it was due, she'd pay £2,057.04 in total.

I'd reviewed L2G's credit checks before Loan 3. As Miss W's application for Loan 3 was only two months after her application for Loan 1, the credit checks were very similar (save that her current account was no longer in overdraft). But, for similar reasons to those set out above for Loan 1, (in particular Miss W's apparent ongoing reliance on large amounts of credit), I again thought the checks should have caused L2G concerns.

In her application Miss W had declared a monthly income of £1,640 and total expenses of £1,074 including credit commitments of £300. L2G had again increased Miss W's total expenses to around £1,150. It also verified and reduced Miss W's monthly income to £1,427. L2G again added a buffer to Miss W's adjusted expenses equal to 10% of Miss W's verified income, to account for any fluctuations in her monthly income or expenditure.

But I thought L2G might have again been concerned as to why someone with a relatively large amount of available income (according to Miss W's declared income and expenses) would need to borrow expensive credit. L2G was aware that Miss W's declared income and expenses left her with a disposable income of £566. This seemed unlikely given that she wanted to borrow £500. So, in these circumstances I didn't think it was reasonable for L2G to rely on the information provided by Miss W without verifying it.

I again thought L2G should reasonably have taken steps to gain a more thorough understanding of Miss W's financial position in order to satisfy itself that she could repay the loan without having to borrow to meet the repayments, without failing to make any contractual or statutory payments and without the repayments having a significant adverse impact on her financial situation. I couldn't see that L2G took steps to do this, other than to verify Miss W's income using an online tool. So overall, I didn't think the checks L2G carried out before Loan 3 were reasonable and proportionate.

Although I didn't think that L2G carried out reasonable and proportionate checks before Loans 1 to 3, that in itself didn't mean that Miss W's complaint should succeed. I also needed to be persuaded that what I considered to be proportionate checks would have shown L2G that Miss W couldn't sustainably afford Loans 1 to 3. So, I'd looked at Miss W's credit report and bank statements to see what better checks would have shown L2G.

What would reasonable and proportionate checks have shown? And did L2G make fair lending decisions?

I'd thought about what L2G would've seen if it had done what I considered to be proportionate checks.

Miss W had provided her credit report and her bank statements from around the time she applied for Loans 1 to 3. I'd reviewed these to understand what her income, living costs, and credit commitments were around that time. I'd also taken into account her borrowing and spending patterns to get a better picture of her financial situation. I wasn't suggesting that these were the checks that L2G should have done. But I thought looking at her credit report and bank statements gave me the best picture of Miss W's wider circumstances which the lender would have likely seen if it had made better checks.

Loan 1

I thought if L2G had made better checks, it was likely to have seen that Miss W's monthly income was far less than she'd declared at around £1,640. She also had substantially more debt than she'd said. She was paying over half of her monthly income (around £910) in credit repayments. By gathering further information, L2G would likely have found that Miss W was paying rent of £462 and her other living costs were around £380. So, I thought L2G was likely to have found that Miss W didn't have sufficient disposable income to make her loan repayments if it had made better checks.

L2G would also have seen that Miss W was persistently overdrawn (save for three days after she'd been paid), and near or over her overdraft limit for most of the month. Miss W was also paying daily overdraft fees and there were several returned direct debits. I could also see that Miss W's current account balance was £43 under her overdraft limit on the day before she'd applied for Loan 1. There was also some evidence of gambling. A wider selection of bank statements showed a similar story. I thought all this showed that Miss W's financial circumstances were somewhat strained and would likely have caused L2G concerns had it made better checks before lending Loan 1 to Miss W. In Miss W's circumstances, I thought it would have seen that there were indications of financial difficulty and there was a significant risk that she wouldn't have been able to make her loan repayments without borrowing further or the payments having a significant adverse impact on her financial situation. So, I wasn't persuaded that L2G had acted fairly in providing Loan 1 to Miss W.

Loans 2 and 3

I thought if L2G had made better checks before Loans 2 and 3, it was likely to have seen that Miss W had significantly more debt than she'd said and more than it had seen in its own credit checks. In January 2020, Miss W borrowed seven short term loans totalling £2,200. In early February 2020 she borrowed another short term loan for £500. Between Loans 2 and 3, she borrowed a further high cost credit loan and four more short term loans totalling £3,880. Some of these loans would have been repayable at the same time as Loans 2 and 3. In addition, I could see that she was repaying existing credit of around £900 in January 2020. I could also see that Miss W borrowed £1,500 from a friend in January 2020.

I also noted that Miss W was making gambling transactions totalling around a third of her income in January 2020.

I thought the gambling, further high cost credit and large number of short term loans suggested that there were indications that Miss W was having serious difficulties managing her money and there was a significant risk that she wouldn't have been able to make her loan repayments on Loans 2 and 3 without borrowing further or the payments having a significant adverse impact on her financial situation. So, I didn't think L2G acted fairly in providing Loans 2 and 3 to Miss W.

Less than three weeks after taking out Loan 3, Miss W contacted L2G to say that she was having financial difficulties and couldn't afford her repayments. She provided L2G with information to show her disposable income was just £86. I understood Loan 3 was then repaid in June 2020 with money borrowed from a relative.

So, I intended to say that L2G treated Miss W unfairly when it agreed to lend Loans 1 to 3 to her. And subject to any further representations by Miss W or L2G my provisional decision was that I intended to uphold this complaint. I intended to order L2G to put things right as follows.

Putting things right – what L2G needs to do

As I intend to conclude that L2G was irresponsible to have lent to Miss W, she shouldn't have to pay any interest, fees or charges for Loans 1 to 3.

So L2G should:

- Refund any interest and charges paid by Miss W for Loans 1 to 3;
- Add simple interest at a rate of 8% per annum to each of these amounts from the date they were paid to the date of settlement*; and
- Remove any adverse information recorded on Miss W's credit file in relation to Loans 1 to 3.

*HM Revenue & Customs requires L2G to take off tax from this interest. L2G must give Miss W a certificate showing how much tax it has taken off if she asks for one.

Miss W responded to my provisional decision to say that she had no further information to add and agreed with my provisional decision.

L2G disagreed with my provisional decision. It said that it appreciated all the points that I'd raised. It thought that it would be helpful to provide a detailed explanation of how it processed loan applications and made its lending decisions.

L2G explained, in summary, that when processing loan applications, a series of stringent checks were carried out to determine whether the personal and financial information provided by the applicant was accurate and/or reliable. L2G also considered how well the applicant had managed historical credit (from information obtained from a credit reference agency ("CRA")) and the applicant's available financial information.

The lender also noted that recently obtained credit may not be visible to the lender at the time of the application. It also used information from the CRA to verify the applicant's bank account and their declared income and credit liability. L2G also made use of statistical information on UK consumer average expenditure to determine what amount of expenditure was deemed reasonable.

In addition, L2G said that the extent of the checks may be based on several risk factors such as the amount being lent, the cost of lending, and the applicants disposable income. It also said that Miss W's credit reports were on the whole very positive. Whist it admitted there was some adverse information on the credit file, this would normally be expected given the type of lending that it provided.

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 have also taken into account the law, any relevant regulatory rules and good industry practice at the time.

I note that L2G provided more information about its checks and processes in response to my provisional decision. It also admitted that there was some adverse information on Miss W's credit file, although it said that this would be normally expected given the type of lending it provided.

As I've set out above, L2G had to carry out a reasonable assessment of Miss W's creditworthiness before it entered into the loan agreements. It had to consider the risk to Miss W of not being able to make the loan repayments. In particular, L2G had to consider Miss W's ability to make repayments under the agreement as they fell due over the life of the agreement, without her having to borrow to meet the repayments, without her failing to make any other repayment she had a contractual or statutory duty to make, and without the repayments having a significant adverse effect on her financial situation.

I've also said above that I thought the results of L2G's credit checks on each of the loans should have caused the lender concerns as Miss W's finances appeared to be under pressure as shown especially by her relatively recent and ongoing need for large amounts of credit. I didn't think L2G treated Miss W fairly when it agreed to lend to her based on the information it would have seen on its credit checks because this showed it was likely that agreeing more credit for her would simply add to her debt levels. I could also see that L2G was aware that its credit checks might not have revealed the full extent of Miss W's credit commitments. And I didn't think it was reasonable for L2G to rely on the information provided by Miss W without verifying it. I thought L2G should reasonably have taken steps to gain a more thorough understanding of Miss W's financial position

I note L2G has provided information about its checks with the CRA and its use of statistical information. But bearing in mind what L2G saw on its credit checks and as Miss W was entering into commitments to make her monthly loan repayments for relatively long periods of time, I don't think it was sufficient in Miss W's circumstances for L2G to rely on statistical information about her expenditure as well as credit information from the CRA, that it said may not be up to date or comprehensive, in order for it to have a clear understanding of Miss W's finances at the time of her applications.

I also appreciate that L2G had used higher expenditure figures compared to the amounts Miss W had declared at the time of her applications. I think this shows it wasn't confident in the information Miss W had provided. But I also don't think that the lender could be confident that the adjusted figures were accurate either. And I don't think that L2G's checks were enough here for the lender to be confident that Miss W would be able to make her loan repayments over the life of the agreements, without her having to borrow further or suffering other adverse financial impacts.

As I've said above, if L2G had made better checks, it would have likely seen that there was a significant risk that Miss W wouldn't have been able to make her loan repayments without borrowing further or the payments having a significant adverse impact on her financial situation.

So, the additional information L2G has provided in response to my provisional decision hasn't persuaded me that I should change my provisional decision. It follows that I uphold this complaint and require L2G to pay Miss W some compensation and take the steps as set out below.

My final decision

My decision is that I uphold this complaint. In full and final settlement of this complaint, I order Loans 2 Go Limited, trading as Loans 2 Go, to:-

1. Refund any interest and charges paid by Miss W for Loans 1 to 3;
2. Add simple interest at a rate of 8% per annum to each of these amounts from the date they were paid to the date of settlement*; and
3. Remove any adverse information recorded on Miss W's credit file in relation to Loans 1 to 3.

* HM Revenue & Customs requires L2G to take off tax from this interest. L2G must give Miss W a certificate showing how much tax it has taken off if she asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 29 April 2021.
Roslyn Rawson
Ombudsman