DRN-2756422

## The complaint

Miss M complains about a loan provided to her by Loans 2 Go limited, ("L2G") which she says was unaffordable.

## What happened

Miss M was given a single loan by Loans 2 Go. She took the loan out on 7 February 2020 for £250 and was due to repay it in 18 monthly instalments. The repayments were for around £57 and the total that she would have to repay was around £1029.

In relation to her irresponsible lending complaint, Miss M mainly said that if Loans 2 Go had completed proper checks it would have seen that she had a low credit rating and defaults. She's also mentioned some other concerns, including the high interest rate on this loan and also that she was paid the money before she understood what the rate was or saw the agreement.

One of our adjudicators looked into Miss M's complaint. He thought that Loans 2 Go carried out sufficient checks before agreeing to provide this loan and that there wasn't anything in the information it gathered which meant it shouldn't have lent to Miss M.

Our adjudicator didn't think Loans 2 Go had been wrong to provide Miss M with the loan and he also didn't think Loans 2 Go acted unfairly towards Miss M in relation to her other complaint points.

Miss M didn't agree with our adjudicator's view. She said she still felt Loans 2 Go unfairly provided her with a loan.

As the complaint hasn't been resolved informally, it comes to me, an ombudsman, to decide.

## 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 when deciding Miss M's complaint.

General principles and questions I need to think about when deciding whether to uphold Miss M's complaint.

Before agreeing to lend, lenders must work out if a borrower can afford the loan repayments alongside other reasonable expenses the borrower also has to pay.

This should include more than just checking that the loan payments look affordable on a strict pounds and pence calculation. A lender must take reasonable steps to satisfy itself that the borrower can sustainably repay the loan – in other words, without needing to borrow elsewhere.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out.

For example, when thinking about what a borrower has left to spend on a new loan after paying other expenses, as well as taking into account things like the loan amount, the cost of the repayments and how long the loan is for, a proportionate check might mean a lender should also find out the borrower's credit history and/or take further steps to verify the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if a loan would've been approved if the checks had been done.

If proportionate checks were done and a loan looks affordable, a lender still needs to think about whether there's any other reason why it would be irresponsible or unfair to lend.

For example, if the lender should've realised that the loan was likely to lead to more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

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 (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).

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 Miss M and thought carefully about the following key questions:

Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Miss M would be able to repay her loan in a sustainable way? If so, did it make a fair lending decision? If not, what would reasonable and proportionate checks have shown at the time?

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

***what checks did Loans 2 Go do?***

Loans 2 Go gathered some information from Miss M before it agreed the loan. It asked her for details of her income and verified this by looking at an online income verification tool. Loans 2 Go noted details of her normal monthly spending including her housing costs, groceries, utilities, transport and other regular expenses – as well as asking Miss M what she was spending on other credit each month.

It also allowed for some extra spending not already included in case she had some extra or unplanned expenses. And it did a credit check to assess how much she was already repaying to other creditors.

Miss M told it she received £1200 in income a month. Loans 2 Go told us that it was satisfied that Miss M received a minimum monthly income of around £1040 after it verified her information. Miss M declared her monthly expenditure and credit commitments to £690 but Loans 2 Go calculated the total was around £863.43 following a review of her credit report. It also deducted 10% of her income as a 'buffer' to account for any fluctuations in her monthly expenditure.

Loans 2 Go worked out that this left Miss M with disposable income which meant that the monthly contractual instalments of around £57 that she had signed up to make on this loan should have been affordable for her.

***did Loans 2 Go do proportionate checks?***

I've carefully considered whether the information that Loans 2 Go gathered at the time should reasonably have triggered further checks. On balance, I don't think that the information Loans 2 Go had collected about Miss M's financial situation was enough to prompt a reasonable lender to think it needed to do further or more in-depth checking.

The credit report that Loans 2 Go acquired showed that Miss M had a total debt balance on all her accounts of around £1000. She had a credit card account that was within its limit and well managed. It appeared that Miss M had no court judgements or defaults recorded in the 6 months running up to this loan. Miss M did have a default on her report, but this was from 2015 and so it would be reasonable of Loans 2 Go to assume that this was largely an issue that was in the past for Miss M and not so much an indication of problems managing her finances at that time.

There was some adverse information on Miss M's credit check. Loans 2 Go' search showed Miss M had entered in to an 'arrangement to pay' on an account after payment problems she had fairly recently.

So, I think it's fair to say that Loans 2 Go could see that Miss M had sometimes had a problem making all her agreed contractual payments in full and on time. But given the type of lending, I think a lender would reasonably expect to see some adverse information on its customer's credit history. And, looked at overall on what it had in front of it, I think it would have been fair for Loans 2 Go to have considered that Miss M's credit report generally showed a positive payment history.

***did Loans 2 Go make a fair lending decision?***

Taking things as a whole, I think it would have been reasonable for Loans 2 Go to consider that the monthly repayments on its loan were affordable for Miss M – allowing for the amount it had seen she had to pay each month towards her existing creditors and what she'd declared as her income and general living expenses.

I've taken into account that Miss M says the credit information that Loans 2 Go relied on was wrong because it didn't reveal the full extent of her debt at the time. But I've needed to see whether Loans 2 Go made a fair lending decision based on what it had in front of it, and from what I have seen, I think it did.

Overall, I think the checks that Loans 2 Go carried out before lending to Miss M were reasonable and proportionate. I think it was reasonable in the circumstances for Loans 2 Go to have relied on the information that Miss M provided and what it found in its checks - and this was enough to enable Loans 2 Go to gain a reasonable understanding of her financial situation and see that Miss M appeared to be managing her money without any significant payment problems. I don't think more in-depth checks – such as requesting bank statements were required.

I don't think there was anything in the information that Loans 2 Go gathered at the time which should have caused the lender any additional concerns about Miss M 's financial position when she applied for the loan or that ought reasonably to have led Loans 2 Go to the conclusion that her loan application should be declined.

So, I haven't seen enough to be able to uphold her irresponsible lending complaint.

***has Loans 2 Go acted unfairly in any other way?***

Miss M says she received the capital amount before she was aware of the terms and interest rate of the loan. But I agree with the adjudicator on this occasion, when he says Loans 2 Go would have more likely than not provided details about the loan during the application, and then would have sent the agreement after the loan had been agreed. So, I don't think on balance, Loans 2 Go acted unfairly here.

Miss M told us that the interest rate on this loan was high.

I think there was a very large amount of interest payable on this loan and I can appreciate that Miss M might now feel this is unfair.

But the loan documents set out the terms of the loan and the amount of interest payable. Miss M applied for this loan and she had to actively engage in the loan application process.

So, I think it's likely that Miss M would've understood the 18-month loan term and been able to see the total amount of interest payable at the time. Taking everything into account, I think Loans 2 Go made Miss M aware that she was taking a very high cost loan over an 18-month period. Miss M accepted these terms, so it seems to me that she was happy with the loan at the time she signed up to pay it.

Thinking about everything I've seen and been told, I can't fairly conclude that Loans 2 Go was wrong to provide the loan to Miss M. And I don't find that Loans 2 Go has acted unfairly towards her in some other way.

So, I do not uphold Miss M's complaint.

I appreciate that Miss M feels strongly about this complaint and that she will be disappointed in my decision.

I take this opportunity to remind Loans 2 Go that it should always discuss payment options constructively with Miss M and treat her fairly and sympathetically if Miss M needs further time to pay what she still owes.

## My final decision

For the reasons given above, I don't uphold the complaint or make any award against Loans 2 Go Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 9 June 2021.

Mark Richardson
**Ombudsman**