DRN-2853873

The complaint

Mr B says Loans 2 Go Limited lent to him irresponsibly.

What happened

Mr B took out two instalment loans from Loans 2 Go. A summary of his borrowing follows. Loan 2 repaid loan 1 in part.

loan	taken out	value, £	term in months	monthly repayment, £	total repayable, £
1	21/10/2018	250	18	56.64	1,019.52
2	12/02/2019	433.52	18	99.08	1,783.44

Mr B says if Loans 2 Go had carried out better checks it would have seen he already had a lot of money problems. He also complains that the interest rate on the loans was grossly excessive.

Our investigator said the lender's checks were proportionate, but that loan 2 should not have been given based on the results of these checks.

Loans 2 Go disagreed and asked for an ombudsman's review. It said that it understood the investigator thought the results of the credit check for loan 2 ought to have led it to complete further checks. But it didn't feel it needed to do this as the credit check showed Mr B had largely settled the new loans he had taken out and all his active borrowing was up-to-date.

For clarity, our investigator did not say further checks were needed, rather that Loans 2 Go did not make a fair lending decision based on the results of the second credit check.

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.

The rules and regulations when Loans 2 Go lent to Mr B 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 is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So Loans 2 Go had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr B. 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 the loan repayments on Mr B.

Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up 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 and cost of credit they have applied for. 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 B. So to reach my conclusion I have considered the following questions:

- did Loans 2 Go complete reasonable and proportionate checks when assessing Mr B's loan applications to satisfy itself that he would be able to repay the loans in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did Loans 2 Go make fair lending decisions?
- did Loans 2 Go act unfairly or unreasonably in some other way?

I can see Loans 2 Go asked for some information from Mr B before it approved the loans. It asked for his monthly income and expenditure. It verified his declared income using a third-party income verification tool. It increased his declared expenditure to ensure it was reasonable based on national statistics. For both loans it checked Mr B's credit file to understand his existing monthly credit commitments and credit history. From these checks combined Loans 2 Go concluded Mr B had enough disposable income for each loan to be affordable.

I think these checks were proportionate given the size and term of the loans and their repayments. And I haven't seen anything in the checks the lender did for loan 1 that I think should have led it to decline the loan. But based on the information it gathered for loan 2 I think Loans 2 Go was wrong to lend to Mr B. I'll explain why I have reached these conclusions.

<u>Loan 1</u>

Mr B's declared income was £1,400 and his adjusted expenditure, including a 10% buffer for any unplanned expenses, was £1,103.33. Given the repayment of £56.64 was a small percentage of his declared income, the fact he was left with £240.03 of monthly disposable income, and his credit file showed he had no other active credit at the time, I think it was fair and reasonable to conclude Mr B could sustainably afford loan 1. I note there was some adverse information (missed payments and defaults) on his credit file, but this was historic (from 2015 and 2016) and the debts had since been settled. So I don't think the lender ought to have been concerned that Mr B's finances were under any pressure in October 2018.

It follows I don't think Loans 2 Go was wrong to give loan 1 to Mr B.

Loan 2

Mr B returned to borrow again less than four months later. The credit check Loans 2 Go carried out showed Mr B had taken out four payday loans in that time, one remained active. He had also opened a mail order account a month earlier and was already close to his credit limit. And he had taken out another loan for £850 on the same date he'd applied for loan 1. He was also now using his overdraft facility (he wasn't at the time of loan 1) and was only £1 under his limit.

Loans 2 Go argues these facts were not a reason not to lend as Mr B had settled most of the payday loans and was up-to-date on the other credit. But I don't think that's a reasonable interpretation of the results of his credit check. I think it's more likely Mr B was in a cycle of debt, only repaying his short-term loans by borrowing to do so. By giving loan 2 the lender was approving Mr B's seventh line of credit in less than four months – so I think it ought to have realised it was most likely his finances were under pressure. And there was a risk he would be unable to repay loan 2 without borrowing to do so or suffering some other financial harm. And as Loans 2 Go knows it had to check the sustainability of the borrowing, not just the pounds and pence affordability.

It follows I think Loans 2 Go was wrong to give loan 2 to Mr B.

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

Mr B says the interest rate was grossly excessive. I accept the APR was high, but Mr B had to actively engage in the application process, so I think it's likely that he was aware of what he was agreeing to pay. I haven't seen anything which makes me think that Loans 2 Go treated Mr B unfairly or breached industry practice regarding interest charges. The interest and charges on loan 2 will be refunded as I've concluded that loan shouldn't have been given.

Putting things right for loan 2

I think it's fair and reasonable for Mr B to repay the capital that he borrowed because he had the benefit of that money. But he has paid interest and charges on one loan that shouldn't have been provided to him.

So Loans 2 Go should:

- Remove all interest, fees and charges on the loan and treat all the payments Mr B made as payments towards the capital.
- If reworking Mr B's second loan account will result in him 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 Mr B's second loan account will leave an outstanding capital balance Loans 2 Go must try to agree an affordable repayment plan with Mr B.
- Remove any adverse information recorded on Mr B's credit file in relation to the loan.

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

My final decision

I am upholding Mr B's complaint in part in relation to loan 2. Loans 2 Go Limited must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 4 April 2022.

Rebecca Connelley
Ombudsman