

The complaint

Mr L complains about two loans he received from Loans 2 Go Limited. Mr L has complained using a claims management company (CMC), but for ease I'll refer mainly to Mr L.

What happened

Mr L applied for and was given the following loans by Loans 2 Go:

	Date	Amount	Term	Repayments	Total payable
Loan 1	4 February 2019	£750	18 months	£171.42	£3,085.56
Loan 2	1 November 2019	£1,000	18 months	£228.56	£4,114.08

Mr L says Loans 2 Go didn't properly assess his ability to repay the loans and lent to him irresponsibly. He believes the interest charged on the loans is irresponsible and has prevented him from doing day to day things.

Loans 2 Go said it conducted credit checks and validated Mr L's income and expenditure for each application. It concluded that the loans had been affordable for him. It said interest had been charged in accordance with the terms of the loan. Loans 2 Go rejected his complaint but offered – on a goodwill basis – to write off a balance of £1,083.54 and close Loan 2 with nothing left to pay.

Mr L didn't agree with Loans 2 Go or accept its offer, so he referred his complaint to us. One of our investigators looked into it. She said that while Loans 2 Go had carried out reasonable checks as it's required to do, it didn't reach a fair lending decision. She said Loans 2 Go should have refused to lend to Mr L based on the checks it carried out. She explained to both parties how she felt things should be put right.

Mr L accepted what our investigator said, but Loans 2 Go didn't. It said Mr L's "*credit report was on the whole very positive*". It said there was some adverse information, but it would expect that given the type of lending it provides. For this reason, it felt it had no reason to carry out any further checks.

As there was no agreement, the complaint has been passed to me for a final decision.

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 complaints about high cost credit on our website – including the key relevant rules, guidance, good industry practice and law. I've considered this approach when deciding this complaint.

Loans 2 Go needed to carry out reasonable and proportionate checks to ensure that it didn't lend to Mr L irresponsibly. I think there are key questions I need to consider in order to decide what is fair and reasonable in the circumstances of this complaint:

- Did Loans 2 Go carry out reasonable and proportionate checks to satisfy itself that Mr L was in a position to sustainably repay the loan?
- Did Loans 2 Go make a fair lending decision?
- Did Loans 2 Go act unfairly or unreasonably towards Mr L in some other way?

The checks are not about Loans 2 Go assessing the likelihood of it being repaid, but it had to consider the impact of the loan repayments on Mr L. There is no set list of checks that it had to do, but it could take into account several different things such as the amount and length of the loan, the amount of the monthly repayments, any existing relationship the borrower has with it and the overall circumstances of the borrower.

Taking all that into account, I think a reasonable and proportionate check ought generally to have been more thorough where:

- a customer has a low income (because it may make it more difficult to make loan payments of a set amount from a low level of income);
- the higher the amount due to be repaid (because it may be more difficult to meet a higher repayment for a particular level of income);
- the longer the term of the loan (because the total cost of the credit is likely to be higher, and the customer is obliged to make payments for a longer period); and
- the greater the number and frequency of loans and the longer the period of time during which a customer has been given loans (because the risk of repeated refinancing may signal that the borrowing had become or was becoming unsustainable).

Did Loans 2 Go carry out reasonable and proportionate checks?

Looking at the amount and length of the loans (£1,000 or less for 18 months) it would be easy to think that proportionate checks would be fairly low level. But the cost of credit here is very high – with Mr L being asked to repay four times what he borrowed once interest is applied. So it seems to me that Loans 2 Go was obliged to pay close attention to information it obtained as it carried out its checks to ensure there was no detriment to Mr L.

Loans 2 Go has said it verified Mr L's income and expenditure using online tools and checked his credit file. Its checks led it to change Mr L's declared figures for his income and expenditure to less favourable amounts – in other words it used a lower figure for his income and a higher figure for his expenditure.

On the face of it, I think Loans 2 Go carried out sufficient checks on Mr L's application. But I'm not persuaded that it thought carefully enough about the information it obtained to reach a fair decision to lend.

Did Loans 2 Go make a fair lending decision?

The rules lenders must follow are set out by the industry regulator, the Financial Conduct Authority, in its Consumer Credit Sourcebook (CONC). When Loans 1 and 2 were agreed, CONC 5.2A.22 said a lender should have regard to information of which it is aware at the time of the creditworthiness assessment, that may indicate the customer is in or is likely to experience financial difficulties.

For Loan 1, Mr L declared an income of £1,400 and outgoings of just £140. Using its verification tool, Loans 2 Go changed these figures to £1,202.60 and £891.08 which left a monthly disposable income of £310.80 with a repayment amount of £171.42.

For Loan 2, Mr L declared income of £1,800 and expenditure of £370. Again Loans 2 Go changed these figures and used £1,482.72 as income and calculated his expenditure as £1,245.48. This left a monthly disposable income of £237.24 with a repayment amount of £228.56.

It hasn't given any detail about what it included in Mr L's expenditure that he'd missed out, nor has it explained the discrepancy in his declared income compared to the figures it used. So I can see why Loans 2 Go felt the loans were affordable on a purely pounds and pence basis – albeit the margin for error was extremely tight for Loan 2.

Loans 2 Go has said Mr L's credit file was reasonably positive although there was some adverse information. It's true to say there are no defaults or judgements recorded against Mr L for Loan 1, but I think there are signs of financial strain showing on his report.

In the credit file Loans 2 Go reviewed for Loan 1, it's evident that Mr L was routinely using short term credit loans to make ends meet. In the six months leading up to Loan 1 he'd taken six loans. He was in an "arrangement to pay" on one loan taken in August 2018 having very quickly fallen into three months arrears. He'd recently missed payments on his credit card which was at its limit.

I think these circumstances and consideration of how tight his budget appeared to be, ought to have led Loans 2 Go to refuse to lend Loan 1 to Mr L as it seems to me that he was either in, or very likely to fall into, financial difficulties. It follows that I don't think it reached a fair decision to lend Loan 1 to Mr L.

Nine months later when Mr L applied for Loan 2, his credit file showed a default of £2,571. Mr L had failed to make any of the first three repayments to Loan 1 which led to Loans 2 Go issuing a formal demand and registering this default against him. It was still showing as outstanding at the time of his application for Loan 2. In the same nine-month period, Mr L had continued to take short term loans from other providers, some of which had also fallen into arrears. Again, it seems clear he was either in, or very likely to fall into, financial difficulties.

His budget for Loan 2 appeared very tight indeed – just £8 or so per month surplus. Together with the circumstances I've mentioned above, I think Loans to Go ought to have refused to lend to Mr L. Again, I don't think it reached a fair decision to lend Loan 2 to Mr L.

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

I've carefully read, listened to and thought about all the evidence provided by each party to this complaint. Mr L has said he felt the interest charged was too high. But from what I've seen, it was charged in accordance with the agreement he reached with Loans 2 Go, so I can't say it was unfair for it to be charged at that rate. I don't think Loans 2 Go has acted unfairly or unreasonably towards Mr L in this regard. But I do think it should have refused to lend to Mr L, so I am upholding his complaint about the loans.

Putting things right

When I find that a business has done something wrong, I'd normally direct that business to put the complainant in the position they would be in now if the mistake it made hadn't happened, as far as is reasonably practical. In this case, that would mean putting Mr L in the

position he would be in now if he hadn't been given the loans. But Mr L was given the loans and has used the money.

So, I think Loans 2 Go should:

- Calculate the total amount Mr L received from Loans 2 Go and deduct from that figure the repayments he's made to each loan.
 - If this results in Mr L having repaid more than he received, any overpayments should be refunded to him. Interest at a rate of 8% simple per year should be added to any overpayments from the date they were made until the date of settlement*.
 - If the calculation means there's still a balance for Mr L to pay, Loans 2 Go should let Mr L know how much is outstanding and reach a suitable, affordable payment plan with him. I remind Loans 2 Go of its obligation to treat customers fairly.
- Remove any negative information recorded on Mr L's credit file regarding each loan.

*If Loans 2 Go considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr L how much it's taken off. It should also give Mr L a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

For the reasons I've explained above, I uphold this complaint. Loans 2 Go Limited should put matters right as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 18 July 2022.

Richard Hale
Ombudsman