

The complaint

Mr C complains that Loans 2 Go Limited acted irresponsibly when lending to him.

What happened

Loans 2 Go provided Mr C with a loan as follows:

Loan	Start date	Capital amount borrowed	Term	Monthly repayment
1	June 2020	£300	18 months	£68.57

Mr C mainly said that Loans 2 Go shouldn't have provided him with the loan when it could see on his credit report that he already had problems paying other debt and so this loan wasn't going to be affordable for him.

Our adjudicator thought that proportionate checks would most likely have shown that Mr C was spending significantly on gambling around the time and so Loans 2 Go ought to have realised it was unlikely Mr C would've been able to sustainably repay this loan. So our adjudicator upheld Mr C's complaint and set out the steps Loans 2 Go should take to put things right.

Loans 2 Go disagreed. In summary, Loans 2 Go acknowledged that its credit checks showed some adverse information but said this would normally be expected given the type of lending it provided. Loans 2 Go said it hadn't deemed it necessary to do more checks or request Mr C's bank statements before lending and it wasn't aware of his spending on gambling as Mr C hadn't disclosed this information.

So the complaint comes to me 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.

I have also taken into account the law, any relevant regulatory rules and good industry practice at the time. Having done so, I've come to the same view as our adjudicator and I'm upholding this complaint. I'll explain why I say this.

There are some general principles I will keep in mind and questions I need to think about when deciding whether to uphold Mr C'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 looked affordable, a lender still needed to think about whether there was 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).

Bearing all of this in mind, in coming to a decision on Mr C's case, I have considered the following questions:

- Did Loans 2 Go complete reasonable and proportionate checks when assessing Mr C's loan application to satisfy itself that he would be able to repay the loan in a sustainable way? If it did, did Loans 2 Go then make a fair lending decision?
- If not, what would reasonable and proportionate checks have shown?

Loans 2 Go told us about the checks it did before lending to Mr C. It asked him to provide details of his income and to tell Loans 2 Go what he normally spent each month. Loans 2 Go did some background checks, including carrying out checks on Mr C's credit file, and adjusted, as necessary, the figures it relied on when assessing affordability.

Although the loan looked comfortably affordable on the figures Loans 2 Go relied on, Loans 2 Go could see that what Mr C had told it about his financial situation seemed to be significantly at odds with the information shown on its credit checks.

In particular, Loans 2 Go was able to see from its checks that Mr C was in arrears on a mail order account, an arrangement to pay had been set up on one credit card, another credit card had been running in arrears for the last three months and he also had a credit card over its agreed limit and two months in arrears. As well as this, it was apparent that within the last 10 days, Mr C had settled a loan that had been four months in arrears.

I think Loans 2 Go should have been concerned that its search results indicated that it was unlikely that Mr C really had the amount of disposable income it thought he had. What Loans 2 Go saw on its credit checks called seriously into question whether Loans 2 Go could rely on its affordability checks that suggested Mr C would be able to make the loan repayments for this loan – given that it was apparent he was already struggling to manage his existing debt obligations. I think this should've prompted Loans 2 Go to carry out more thorough checks into Mr C's financial situation before agreeing to lend.

I think Loans 2 Go should have taken steps to verify what Mr C was saying about his financial circumstances. Loans 2 Go hasn't shown me it did this. So I can't fairly say that it carried out a proportionate check before agreeing to lend to Mr C.

I've thought about what a proportionate check is likely to have revealed to Loans 2 Go.

Mr C has provided his bank statements so I've looked through these to see what Loans 2 Go was likely to have found out. In the absence of other evidence, I think these give a reasonable picture of Mr C's finances at the time. And had Loans 2 Go looked in more depth at Mr C's finances it would likely have realised that he was facing serious problems managing his money. I think it would have learnt that, around the time he applied for this loan, Mr C was regularly spending significant amounts on what appear to be gambling transactions.

This means I don't think it was reasonable for Loans 2 Go to think that it was likely Mr C would be able sustainably to repay his borrowing – so it shouldn't have provided this loan.

Putting things right

I haven't seen anything which makes me think Loans 2 Go acted unfairly towards Mr C in any other way. So I'm not awarding any additional redress. But he has paid interest and possibly charges on a loan that should not have been provided to him. In line with this Service's approach, Mr C shouldn't repay more than the capital amount he borrowed. With this in mind, Loans 2 Go should:

- add up the total amount of money Mr C received as a result of being given the loan. The payments Mr C made should be deducted from this amount
- if this results in Mr C having paid more than he received, then any overpayments should be refunded along with 8% simple interest* (calculated from the date the overpayments were made until the date of settlement)
- if any capital balance remains outstanding, then Loans 2 Go should attempt to arrange an affordable and suitable payment plan with Mr C bearing in mind the need to treat him positively and sympathetically in those discussions
- remove any adverse information placed on Mr C's credit file regarding the loan.

*HM Revenue & Customs requires Loans 2 Go to take off tax from this interest. Loans 2 Go must give Mr C a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons given above, I uphold Mr C's complaint and require Loans 2 Go Limited to take the steps I've set out to put things right.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 13 August 2021.

Susan Webb
Ombudsman