

The complaint

Mr C has complained that 1Plus1 Loans Limited irresponsibly lent him a loan in August 2018.

What happened

Mr C took out one loan with 1Plus1 in August 2018 for £3,000, the loan had a term of 60 months with monthly repayments of £114.38. The total cost of the loan was £6,862.80.

When Mr C complained to 1Plus1, it didn't uphold his complaint, it said it did enough checks and the loan was affordable for him.

Mr C referred his complaint to this service where it was looked at by one of our investigators. Our investigator thought that 1Plus1 shouldn't have lent the loan, she said the affordability checks ought to have shown 1Plus1 that Mr C didn't have sufficient disposable income to afford the loan.

1Plus1 disagreed that it shouldn't have lent to Mr C. It says its checks went far enough and showed that Mr C could afford the loan.

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've also taken into account the law, any relevant regulatory rules and good industry practice at the time the loan was offered.

Before lending money to a consumer, a lender should take proportionate steps to understand whether the consumer will be able to repay what they're borrowing in a sustainable manner without it adversely impacting on their financial situation.

1Plus1 was required to gather enough information for it to be able to make an informed decision on the lending. Although the guidance and rules themselves didn't set out compulsory checks, they did list a number of things a lender could take into account before agreeing to lend.

The key thing was that any checks needed to be proportionate and had to take into account a number of different things, including things such as how much was being lent and when what was being borrowed was due to be repaid. A business should also take into account and react appropriately to what it knew about the consumer at the time it made its lending decision.

From the information provided, 1Plus1 searched Mr C's credit file, asked him about his income and monthly expenses. 1Plus1 also carried out an affordability call with Mr C, where it went through the details of his income and expenses. Mr C initially declared that he earned £2,000 a month but after 1Plus1 went through his expenses and credit commitments –

suggesting that he couldn't afford the borrowing, he said he earned £2,500. 1Plus1 said it needed to verify this information which it did through a CIFAS call, it has provided a copy of that call to this service and I can hear that the CIFAS agent confirmed Mr C received £2,500 and that this income had been consistent. I don't think it matters much in this case whether 1Plus1 took into account Mr C's over time as I don't think it should have lent on either income calculation and I've explained why below.

Based on the information it gathered, I think it was clear to 1Plus1 that Mr C had a high debt burden and even though he was consolidating his pay day loans, he was still due to repay over £1,000 other creditors, including the repayment on this loan, Mr C was due to repay around 45% of his monthly income (including overtime) on credit. Mr C was borrowing from various lenders, using his overdraft and credit card as well.

Taking into account Mr C's living costs which were around £1,040, Mr C would have been left with some disposable income. However, 1Plus1 didn't just need to check that the loan was affordable on a pound and pence calculation, it needed to understand that the lending wasn't going to adversely impact Mr C's financial circumstances. I think a 60-month loan term is significant and Mr C having such a high level of indebtedness was a concern about the sustainability of the lending. I think 1Plus1 ought to have been aware that with Mr C committing such a substantial amount of his income towards credit, there was a high risk he'd struggle to repay the loan over the term.

As a responsible lender, it shouldn't have lent in those circumstances and it needs to put things right.

Putting things right

- Remove all interest, fees and charges added to the loan and
- treat all payments made by Mr C as capital repayments;
- if after doing the above there are overpayments, 1Plus1 should add interest at 8% per year simple on the overpayments sums from the date they were paid, if they were, to the date of settlement†;
- if there's still a capital balance outstanding, then 1Plus1 should agree a suitable repayment plan with Mr C;
- remove any adverse information recorded on Mr C's credit file as a result of the interest and charges on this loan.

†HM Revenue & Customs requires 1Plus1 to take off tax from this interest. 1Plus1 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'm upholding Mr C's complaint. 1Plus1 Loans Limited should put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 21 March 2022.

Oyetola Oduola
Ombudsman