

## **The complaint**

Mr D says 1Plus1 Loans Limited lent to him irresponsibly.

## **What happened**

Mr D took out a 36-month guarantor loan from 1Plus1 Loans for £2,500 on 12 May 2017. The monthly repayments were £117.37 and the total amount repayable was £4,225.32. It was given on the basis that Mr D had a guarantor who would be responsible for repaying the loan if he failed to.

Mr D says the loan was unaffordable for him, he was almost always late making his repayments and it caused significant stress.

The investigator said Mr D's complaint should be upheld. She said the lender's checks showed it was unlikely the loan would be sustainably affordable for Mr D and so it was wrong to give the loan to Mr D.

1Plus1 Loans disagreed. It said, in summary:

- it did not consider Mr D had a significant amount of debt when he applied;
- we have not considered that he was settling his logbook loan with this loan – and the monthly repayment for this loan was lower, nor that his home credit was about to be repaid in full;
- its business model is to lend to people that may not have a good credit history to allow that demographic access to credit when they need financial assistance and there is no regulation that suggests an application should be declined if there are arrears on the credit check;
- whilst Mr D was late with some of his early repayments the affordability assessment showed he had the available funds so this could be evidence of his attitude to credit – so he chose not to pay on time - rather than of over-indebtedness; and
- we have not shared any financial assessment we have carried out and seem to have relied on bank statements from one month - May 2017 – the lender asked for copies of these. It has looked at statements from October 2017 that show Mr D's gambling had not increased significantly and he still had enough disposable income to afford this loan.

It asked for an ombudsman's review, so the complaint was passed to me.

## **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 reviewed carefully all of the points 1Plus1 Loans made in response to the investigator's assessment. In keeping with our role as an informal dispute resolution service I will focus my comments here on those I find to be material to the outcome of this complaint.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The Financial Conduct Authority (FCA) was the regulator when 1Plus1 Loans lent to Mr D. Its rules and guidance, set out in its Consumer Credit Sourcebook (CONC), obliged 1Plus1 Loans to lend responsibly. Amongst other things, 1Plus1 Loans was required to carry out a reasonable and proportionate assessment of whether Mr D 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 1Plus1 Loans had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr D. In other words, it wasn't enough for 1Plus1 Loans to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr D.

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 1Plus1 Loans did what it needed to before agreeing to lend to Mr D, and have considered the following questions:

- did 1Plus1 Loans complete reasonable and proportionate checks when assessing Mr D's loan application to satisfy itself that he would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown
- did 1Plus1 Loans make a fair lending decision?
- did 1Plus1 Loans act unfairly or unreasonably in some other way?

1Plus1 Loans asked for some information from Mr D before it approved the loan. It asked for details of his income, and his monthly living costs which it validated using national statistics. It added a buffer for unplanned expenses. It asked for a copy of a recent payslip to validate his income. It checked his credit file to understand his credit history and current monthly repayments. It asked about the purpose of the loan and Mr D explained he wanted to upgrade his car. From these checks combined 1Plus1 Loans concluded Mr D had enough monthly disposable income for the loan to be affordable.

I'm not wholly persuaded these checks were proportionate given 1Plus1 Loans needed to be sure Mr D could afford his repayments sustainably over a three-year period. I think it should have wanted to understand and check his actual expenses. But I won't comment further on that as even based on the information the lender gathered I don't think it made a fair lending decision. I'll explain why.

1Plus1 Loans knew that Mr D would have ongoing monthly credit commitments for two existing loans totalling £409. I agree with its point that it did not need to take into account the home credit that was about to be repaid in full. And the logbook loan was also due to be settled with this loan, so it was reasonable not to include that £140 monthly repayment. However, giving this loan meant Mr D would still need to spend over a third of his net income on servicing his debt.

At that level I think 1Plus1 Loans ought to have realised there was a risk the loan repayments would not be sustainable for him over a 36-month period. It argues that this loan repayment was less than the logbook loan repayment but even if there was a marginal reduction in the monthly cost, I still think Mr D's overall spend on credit should have concerned 1Plus1 Loans. To meet its regulatory obligations it needed to consider the sustainability of the repayments, not just the pounds and pence affordability. CONC 5.3.1(G) stated:

- 1. In making the creditworthiness assessment or the assessment required by CONC 5.2.2R (1), a firm should take into account more than assessing the customer's ability to repay the credit. [Note: paragraph 4.2 of ILG]*
- 2. The creditworthiness assessment and the assessment required by CONC 5.2.2R (1) should include the firm taking reasonable steps to assess the customer's ability to meet repayments under a regulated credit agreement in a sustainable manner without the customer incurring financial difficulties or experiencing significant adverse consequences. [Note: paragraph 4.1 (box) and 4.2 of ILG]*

1Plus1 Loans said that Mr D's payment history may demonstrate his attitude to credit, rather than any financial problems meeting his repayments. But it has not supplied any evidence to support this claim and Mr D's testimony was that he struggled to make each repayment. I think given the relatively frequent late payment fees through the term of the loan it's reasonable to conclude it was most likely financially challenging for Mr D – at the very least I cannot fairly conclude the late payments do not suggest he might have been having problems.

Our investigator referenced Mr D's May 2017 bank statement. The findings I have reached above do not rely on this information, but had they done so I think in this instance the investigator adequately shared the information that concerned her in summary form. Where customers provide personal information such as bank statements in the course of making a complaint, we don't typically share the information in full. This is in line the provision set out in DISP 3.5.9 which states that the *Ombudsman* may “accept information in confidence (so that only an edited version, summary or description is disclosed to the other party) where he considers it appropriate”.

It follows I think 1Plus1 Loans was wrong to lend to Mr D.

I don't think 1Plus1 Loans acted unfairly or unreasonably in some other way towards Mr D.

### **Putting things right**

I think it's fair and reasonable for Mr D to repay the capital that he borrowed, because he

had the benefit of that money. But he has paid interest and charges on a loan that shouldn't have been provided to him. So 1Plus1 Loans should:

- Remove all interest, fees and charges from the loan and treat all the payments Mr D made as payments towards the capital.
- As reworking Mr D's loan account will result in him having effectively made payments above the original capital borrowed, then 1Plus1 Loans 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\*.
- Remove any adverse information recorded on Mr D's credit file in relation to the loan.

\*HM Revenue & Customs requires 1Plus1 Loans to deduct tax from this interest. 1Plus1 Loans should give Mr D a certificate showing how much tax it's deducted if he asks for one.

### **My final decision**

I am upholding Mr D's complaint. 1Plus1 Loans Limited must put things right as set out above.

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

Rebecca Connelley  
**Ombudsman**