DRN-2946526

The complaint

Ms Y says Loans 2 Go Limited lent to her irresponsibly.

What happened

Ms Y took out an 18-month loan for £800 on 17 May 2020. The monthly repayment was £182.84 and the total repayable was £3291.12. She says the lender did not carry out the correct checks.

Our adjudicator said the complaint should be upheld. She said the credit checks Loan 2 Go carried out showed Ms Y was already using a significant amount of her monthly income to repay her existing credit agreements so it ought to have realised there was a risk this loan would not be sustainably affordable.

Loans 2 Go disagreed saying Ms Y's credit report was on the whole very positive. Whilst there was some adverse information that would be expected for a high-cost credit applicant. And as all payments were up-to-date it did not see the need for further checks. It asked for an ombudsman to review the case.

I reached the same conclusion as the adjudicator but relied on some additional evidence and made new findings. So I issued a provisional decision (an extract follows and forms part of this final decision) to give everyone a chance to comment before I issued my final decision.

Extract from my provisional decision

I can see Loans 2 Go asked for some information from Ms Y before it approved the loan. It checked her credit file and asked for details of her monthly income and expenditure. She declared these to be £1600 and £70. It checked her income using an income verification tool and used a lower figure of £1558 for its assessment. It increased her expenses to £1215 after checking her credit file and added a 10% buffer. From these checks combined Loans 2 Go concluded Ms Y had enough monthly disposable income to afford to repay the loan.

As our adjudicator said, the lender knew from its credit check that Ms Y was already using a significant portion of her income to manage her existing debt. Given this, the term of the loan, and the discrepancy between the income and expenditure Ms Y declared and the checks Loans 2 Go did, I think it should have done a fuller review of Ms Y's actual finances get the assurance it needed that the loan was sustainably affordable.

However, its failure to do so doesn't mean the complaint should be automatically upheld. I need to look at what Loans 2 Go was likely to have seen had it completed proportionate checks. To do this I have reviewed Ms Y's bank statements from the time before her application. I'm not saying the lender needed to do this but it's one way to understand what better checks would most likely have shown.

The statements show Ms Y was having problems managing her money. In the month prior to this loan application Ms Y was using payday loans, a line of high-cost revolving credit and buy-now-pay later products; still making payments to a debt collections agency for an old *defaulted debt; spending frequently on gambling and she had a number of direct debits returned. So had Loans 2 Go carried out better checks I think it would have realised Ms Y finances were under pressure and it was unlikely she would be able to repay this loan without borrowing to do so or suffering other adverse financial consequences.*

It follows I think Loans 2 Go was wrong to give the loan to Ms Y.

I then set out what Loans 2 Go would need to do if I upheld the complaint.

Both parties responded to my provisional decision before the deadline of 19 August 2021, saying they had no further information or comments to add.

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.

As neither party sent in any new evidence or comments it follows I have no reason to change the findings or outcome I set out in my provisional decision. So I am upholding Ms Y's complaint.

Putting things right

I think it's fair and reasonable for Ms Y to repay the capital that she borrowed, because she had the benefit of that money. But she has paid interest and charges on a loan that shouldn't have been provided to her.

If Loans 2 Go has sold the outstanding debt it should buy it back if it is able to do so and then take the following steps. If Loans 2 Go is not able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below.

It should:

- Remove all interest, fees and charges from the loan and treat all the payments Ms Y made as payments towards the capital.
- If reworking Ms Y's loan account results in her 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 the account leaves an amount of capital still to be paid, then Loans 2 Go should work to agree an affordable repayment plan with Ms Y, bearing in mind its obligation to treat her positively and sympathetically in these discussions. Loans 2 Go should not pursue any outstanding balance made up of capital it has already written-off.
- Remove any adverse information recorded on Ms Y'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 Ms Y a certificate showing how much tax it's deducted, if she asks for one.

My final decision

I am upholding Ms Y’s complaint and 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 Ms Y to accept or reject my decision before 9 September 2021.

Rebecca Connelley
Ombudsman