

The complaint

Mrs S complains Loans 2 Go Limited irresponsibly approved her for three loans. Mrs S says these loans were unaffordable to her.

What happened

Loans 2 Go approved Mrs S for the following three logbook loans:

Loan	Date	Amount	Term (weeks)	Repayments (weekly)
One	December 2011	£1,257 (approx.)	78	£46 (approx.)
Two	July 2013	£1,200	52	£52 (approx.)
Three	August 2013	£4,000	100	£88 (approx..)

Mrs S says these loans were lent irresponsibly. She says the loans were unaffordable to her and caused her to suffer financial loss as result. Mrs S says she was struggling financially at the time the loans were approved; as well as struggling with her mental health. Mrs S also complains Loans 2 Go applied for CCJ's and defaults against her.

Our investigator recommended this complaint be upheld. He said:

- Loans 2 Go had completed proportionate checks in relation to each of the loans;
- The wage slips Mrs S had provided suggested she would be left with an insufficient amount of disposable income per month to meet the expenses of loan one. As such loan one was unaffordable;
- The bank statements which Mrs S provided for loans two and three demonstrated that these loans were also unaffordable to her.

Loans 2 Go disagreed with our investigator's opinion. In relation to loan one it says our investigator incorrectly calculated what Mrs S's likely income would've been. It says had the investigator used a two month average it would've shown the loans were likely affordable.

In relation to loans two and three, Loans 2 Go said the information it was presented with did not show signs of financial difficulties; and therefore the loans appeared affordable to Mrs S.

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 irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website. I've used this approach to help me decide this complaint.

Loans 2 Go is aware it needed to take reasonable steps to ensure it responsibly lent to Mrs S. The relevant rules, regulations and guidance at the time Loans 2 Go lent required it to carry out reasonable and proportionate checks. These checks needed to assess Mrs S's ability to afford the loan and repay it sustainably over its term without causing her financial difficulties.

There isn't a set list of checks a lender needs to carry out, but they should be proportionate, taking into account things like the type, amount, duration and total cost of the credit, as well as their circumstances.

And it isn't sufficient for Loans 2 Go to just complete proportionate checks – it must also consider the information it obtained from these checks to make a fair lending decision. This includes not lending to someone in financial hardship; and ensuring repayments can be made sustainably without having to borrow further.

Finally, the fact these loans were logbook loans, and thereby had the security of Mrs S's car as an asset, in no way lessened Loans 2 Go's obligations in relation to the above checks.

Loans 2 Go says it completed reasonable and proportionate checks on each of the loans it provided Mrs S. In relation to loan one, Loans 2 Go completed an income and expenditure assessment, and verified this with two months' worth of Mrs S's payslips. The information Loans 2 Go obtained demonstrated that Mrs S's average income would be around £1,200, and her monthly expenditure would be £880 (not including the repayment for the loan). Mrs S declared she had three children under 14 years old. The expenses that Loans 2 Go noted only covered Mrs S's mortgage and living cost commitments. The expenditure form did not capture any details of Mrs S's credit commitments; nor did Loans 2 Go complete a credit file search.

For loan two, Loans 2 Go again obtained an income and expenditure from Mrs S; and this time verified this information via bank statements and payslips. The assessment Loans 2 Go completed showed Mrs S's income had increased to approximately £1,600 with her expenses being listed as approximately £660 (not including the loan repayment).

Loan three had similar checks as loan two completed on it. That is to say Loans 2 Go completed an income and expenditure assessment; and verified this information with bank statements and payslips. Using this information Loans 2 Go calculated Mrs S would have an income of around £1,750 and expenses of £1,130. This would leave Mrs S with over £600 disposable income to meet the expense of the loan.

I've carefully considered the information that Loans 2 Go provided at the time of each application; and I'm satisfied proportionate checks were completed in each instance of the lending relationship with Mrs S. I say this because Loans 2 Go has sought to verify the information Mrs S had provided, using a combination of payslips and bank statements. This information gave Loans 2 Go enough insight into Mrs S's financial circumstances to understand if any lending it provided to her would be sustainable. I can also see that as the lending relationship developed (and the value of the capital being advanced did), Loans 2 Go obtained further information from Mrs S. As such I'm satisfied the proportionality of the checks increased in line with the value of the capital being advanced.

With that being said, Loans 2 Go was still required to carefully consider the information it was provided with prior to approving the loans. Completing proportionate checks themselves is not enough to demonstrate that a fair lending decision has been made.

Looking at loan one; I'm not persuaded the information that Loans 2 Go gathered, suggested that Mrs S was in a position to sustainably repay it. As mentioned above the checks Loans 2 Go completed demonstrated that if Mrs S's income was to be calculated at £1,200 per month then she would have a disposable income of approximately £120 after making her repayments. Loans 2 Go say using the two-month average of these two payslips was a reasonable approach to take. I've considered this argument and I don't agree with it.

The payslips which have been provided so that Mrs S's income fluctuates between each month. For example, the two months' payslips show a net income of £1,340 (approx.) and £1,060 (approx.). When considering this information Loans 2 Go is aware that on the months Mrs S' income didn't match the average £1,200 then her outgoings would like exceed the income she had. And Loans 2 Go was aware that it was reasonable that this could occur – as it had done so in the past. That persuades me that Mrs S' was always going to be managing her finances to a very tight budget, and on some months probably a negative margin. Loans 2 Go is aware that any repayments needed to be sustainable to Mrs S; and I'm satisfied the information provided did not demonstrate that was likely to be the case for Mrs S.

Even if I were to assume Mrs S's income remained over £1,200 per month, I'm still not persuaded that Loans 2 Go's decision to lend was fair. I say this because even on that estimation Mrs S would only be left with a disposable income of around £120 per month. Considering that Mrs S had declared she had three children under the age of 14 years old; and Loans 2 Go didn't have details of her credit commitments; I'm not persuaded a margin of at most £120 was sufficient. Again, Loans 2 Go needed to ensure any payments were sustainable for Mrs S; and considering what Loans 2 Go knew about her at the time; I think it is reasonable that further likely expenses would occur, and question the sustainability of her finances.

Moving on to loan two; again I'm satisfied that although Loans 2 Go completed proportionate checks; it did not make a fair decision to lend. The information Loans 2 Go completed as part of its income and expenditure assessment suggested that Mrs S would be left with a round £700 disposable income each month. As Loans 2 Go is aware, the affordability assessment needs to be borrower focused; and that is not limited to just a pounds and pence assessment.

Reviewing the statements that Loans 2 Go had at the time; it's very doubtful Mrs S had the disposable income declared. Instead, looking at the statements it is clear Mrs S was managing her finances to a much tighter budget than the income and expenditure assessed. It is noticeable that Mrs S approaches her overdraft on multiple occasions; and has to rely on transferring money in from other sources to meet her outgoings.

Mrs S has told us these transfers were from using short term lenders. Whilst those transaction seemingly don't appear on the statements Loans 2 Go obtained; I'm satisfied the evidence it did have suggested an unsustainable pattern of maintaining her finances. Loans 2 Go was aware Mrs S only had one source of declared income (her salary); and this was present in the statements it had. As such it is likely from the evidence Loans 2 Go had that Mrs S was having to borrow further to meet her outgoings. Without these transactions Mrs S would've been overdrawn and her outgoings exceeding her income. I'm therefore satisfied Loans 2 Go had enough information to suggest this loan was unaffordable to Mrs S from the outset. It therefore acted unfairly in approving it.

Moving onto Loan three. Loans 2 Go says the information it gathered did not show Mrs S was in financial difficulties and there was no evidence of Mrs S using other forms of credit to supplement her income. It therefore says it lent responsibly. Having reviewed the evidence Loans 2 Go gathered at the point of sale, I disagree with Loans 2 Go that it made a fair decision to lend.

Loan two was only in force for a short period before loan three was approved. As such Mrs S's circumstances hadn't changed much in the intervening period. If anything, the information Loans 2 Go gathered demonstrated things had gotten worse for her.

The statements Loans 2 Go had collected showed that Mrs S was now entering her overdraft by significant amounts on multiple occasions. At one point she was more than £500 over drawn. When you consider the information Loans 2 Go had from loan two; I'm persuaded that you can see a pattern of increased indebtedness forming. The lead up to loan two shows Mrs S's finances were tight; and now by loan three they were beginning to break; leading her to a negative position.

I also disagree there was no evidence Mrs S was having to use other forms of credit. This is for the same reasons as above; namely that Loans 2 Go was aware Mrs S only had one source of income. The transactions into her account (which were for large amounts) could reasonably have been identified as other forms of credit. It is noticeable again that without these transfers in Mrs S would be in an even worse financial position. Mrs S has told us she was experiencing financial hardship at this point; and the evidence gives credence to that. I think Loans 2 Go ought've reasonably come to the same conclusion based on the information it had; and therefore it follows it acted unfairly in approving the loan.

Putting things right

Mrs S has lost out financially because of the loans Loans 2 Go provided her, as she has had to pay additional interest and charges on these amounts. As such Loans 2 Go needs to put things right.

In order for Loans 2 Go Limited to put things right I require it to:

- Refund all interest, charges and fees which Mrs S paid and which applied to loans one, two and three;
- Pay Mrs S 8% simple interest on the refunded interest and charges from the date they were paid to the date of settlement*;
- Remove any adverse information on Mrs S's credit file in relation to loan one, two and three.

*HM Revenue & Customs requires Loans 2 Go Limited to take off tax from this interest. Loans 2 Go Limited must give Mrs S a certificate showing how much tax it has taken off if she asks for one.

My final decision

My final decision is that I uphold this complaint against Loans 2 Go Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 17 March 2022.

Tom Whittington
Ombudsman