DRN-2954737

The complaint

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

What happened

Mr F took out a 60-month guarantor loan from 1Plus1 Loans for £6,000 on 1 May 2019. The monthly repayments were £228.75 and the total amount repayable was £13,725. It was given on the basis that Mr F had a guarantor who would be responsible for repaying the loan if he failed to.

Mr F says the lender did not complete the correct affordability checks. It didn't offer any options other than going to his guarantor when he couldn't make his repayments. He had to take out more expensive loans to cover his payments increasing his indebtedness.

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

1Plus1 Loans disagreed. It said, in summary:

- 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;
- Mr F's bank statements showed he would have around £415 of monthly disposable income;
- the loan was for debt consolidation and so provided Mr F with financial relief;
- Mr F's use of his overdraft was factored into its risk assessment;
- the payday loans the investigator referred to were not in place at the time of the loan application, they do not appear on the credit check it completed indicating Mr F had taken steps to clear his debts; and
- Mr F did not contact it to say he had problems repaying the 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.

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 F. 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 F 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 F. 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 F.

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 F, and have considered the following questions:

- did 1Plus1 Loans complete reasonable and proportionate checks when assessing Mr F'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 F 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 to allow for unplanned costs. It also reviewed his previous three months' bank statements. It checked his credit file to understand his credit history and current monthly repayments. It asked about the purpose of the loan which was debt consolidation. From these checks combined 1Plus1 Loans concluded Mr F had monthly disposable income of £415 and so the loan was affordable.

I think these checks were proportionate, but I am not persuaded 1Plus 1 Loans made a fair lending decision based on the information it gathered. I'll explain why.

The credit check 1Plus1 Loans carried out showed Mr F had defaulted on two accounts in the previous nine months, and he had missed payments on two other accounts in the previous six months. The lender says it took this into account, but it wasn't a reason not to lend given the part of the market it operates in. Whilst I agree that some adverse information on a credit file isn't an automatic reason not to lend, I think there were factors here that, in combination, ought to have concerned the lender.

It could see from Mr F's bank statements that he had other borrowing. In the month before he applied there were credits in from three high-cost short-term lenders. I disagree with the lender's conclusion that these debts not being on Mr F's credit check indicates he had cleared them, and his financial position was improving. I think it is more likely they didn't show due to timing issues, or the fact that not all lenders report to all the credit reference agencies. Had the debts been repaid in full that would be evident on his bank statements. In addition, as the lender would have been aware at least one of these debts was an open line of revolving credit I would have expected it to investigate this to understand what Mr F owed on this product.

Plus, the recent loans weren't one-offs, the bank statements showed Mr F was using high-cost short-term credit frequently: 12 times over the three months prior to this application, borrowing on average £690 a month. This suggests he was reliant on it to make ends meet and was most likely trapped in a cycle of borrowing to repay. So I think 1Plus 1 Loans ought to have realised Mr F was having problems managing his money and further borrowing would most likely not be sustainable. I note 1Plus 1 Loans maintains Mr F had surplus disposable income, but it was required to do more than check the pounds and pence affordability of the loan. It was obliged under CONC 5.2A.12 (R) to also ensure Mr F would be able to repay his loan without borrowing to do so, or it having a significant adverse impact on his overall financial situation. 1Plus1 Loans also argued that as the loan was going to be used to settle four credit cards, a mail order account and the defaulted loan it was providing Mr F with access to financial relief.

Whilst I agree loans for debt consolidation can make financial sense I'm not certain that was the case here. The largest monthly credit commitment Mr F had was the repayment of his defaulted loan at £213. But it is most likely Mr F would not have been paying interest on the defaulted debt. And from what it learnt from the credit report, 1Plus1 Loans it made its lending decision on the basis that Mr F had just under £3,500 of debt that he was taking on a debt of £13,725 to settle. So I think in this case it was harmfully extending his indebtedness and prolonging his reliance on high-cost credit.

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

I don't think 1Plus1 Loans acted unfairly or unreasonably in some other way towards Mr F. He says it didn't offer alternatives to calling on his guarantor when he was struggling to repay the loan. 1Plus1 Loans says Mr F didn't contact it to say he was having financial difficulties, but in any event Mr F was aware when he applied for the loan that his guarantor would be called on if he was unable to make payment.

Putting things right

I think it's fair and reasonable for Mr F 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 1Plus 1 Loans should:

- Remove all interest, fees and charges from the loan and treat all the payments Mr F made as payments towards the capital.
- If reworking Mr F's loan account results 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*.
- If reworking Mr F's loan account leaves a capital balance outstanding 1Plus1 Loans should try to agree an affordable repayment plan with Mr F.
- Remove any adverse information recorded on Mr F'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 F a certificate showing how much tax it's deducted if he asks for one.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 14 March 2022.

Rebecca Connelley
Ombudsman