

## The complaint

Mr M complained that 1Plus1 Loans Limited lent to him irresponsibly and provided him with an unaffordable loan.

## What happened

Mr M was given a loan by 1Plus1 as follows:

Date taken	Loan status	Number of monthly instalments	Loan amount	Monthly repayment*	Total payable
July 2019	Paid (November 2019)	36	£3,000	£143.84	£5,178.24

Mr M told 1Plus1 the loan purpose was debt consolidation – in other words, he would use the loan to repay other debt.

One of our investigators reviewed Mr M's complaint. He didn't think that 1Plus1 should've provided the loan and so he recommended upholding the complaint and set out the steps 1Plus1 needed to take to put things right.

1Plus1 disagreed with our investigator's view. In summary, it mainly said that Mr M's credit file didn't indicate that he was struggling to manage his debt – he was meeting his existing credit commitments and no concerns were flagged up so he wasn't considered to be over-indebted.

It didn't agree that Mr M's overall debt level was significant when compared to national statistics and said using its loan for debt consolidation meant Mr M would reduce his monthly debt costs. 1Plus1 also said he made the loan repayments without difficulty, which he couldn't have done if he hadn't been able to meet the repayments sustainably.

As the complaint hasn't been resolved, it comes to me to decide.

## 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 unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding this complaint. I have also taken into consideration regulatory rules and good industry practice at the time.

I'd like to reassure 1Plus1 that I've looked at the complaint afresh – and I've independently reached the same conclusions as our investigator and I am upholding Mr M's complaint for broadly the same reasons. I'll explain in more detail why I say this.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. Lenders must work out if a borrower can sustainably afford the loan repayments alongside other reasonable expenses the borrower also has to pay. This should include more than just checking that the loan payments look affordable on a strict pounds and pence calculation – a proportionate check might also find out the borrower's credit history and/or take further steps to verify the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if a loan would've been approved if the checks had been done. If proportionate checks were done and a loan looked affordable, a lender still needed to think about whether there was any other reason why it would be irresponsible or unfair to lend. For example, if the lender should've realised that the loan was likely to lead to significant adverse consequences or more money problems for a borrower already struggling with debt that can't be repaid in a sustainable way.

1Plus1 asked Mr M about his financial situation, including his income, which it verified by doing an electronic check and speaking to his bank.

It asked him about his expenses and carried out some credit checks. 1Plus1 also took into account statistical information when comparing Mr M's declared expenditure against national data showing typical spending for someone in a similar situation and was satisfied that Mr M's declared expenses seemed reasonable.

1Plus1 recorded a figure of £1,600 net salary per month. After doing its own background checks and allowing for Mr M's monthly spending after taking its loan and using it to consolidate other debt, plus a buffer for emergencies, 1Plus1 worked out that Mr M should have been left with a monthly surplus of around £339. So this led 1Plus1 to conclude that the loan was affordable for Mr M.

I've taken carefully into account everything 1Plus1 has said in response to our investigator's view about the way it assessed affordability. And I've thought carefully about what I think a responsible lender should have made of all this information and in particular whether it was enough for 1Plus1 to make a fair decision to lend.

Despite its affordability calculation appearing to show that Mr M should have had enough disposable income each month to cover the loan repayments, I think 1Plus1 should've realised this was unlikely, given the picture painted overall by the other information it had gathered. And I think 1Plus1 had enough information in front of it to realise that this loan wasn't likely to be sustainable for Mr M.

I say this because 1Plus1 was aware that Mr M's total outstanding credit balances at the time amounted to around £19,739. And 1Plus1 had information showing that, by my estimate, when he applied for this loan Mr M was already paying more than three quarters of his net monthly income just on servicing his debt.

I think this was worrying information, especially bearing in mind that Mr M had been in his job almost two years so he'd had a steady income for some time. And throughout this time he'd been living with his parents and paying just £200 towards food bills but nothing towards any of the other usual household expenses. His car loan accounted for less than half his total debt. So I think 1Plus1 was aware that Mr M had a significant level of unexplained debt

and it should've realised that its assumption about the amount of disposable income Mr M should have couldn't be relied on.

As well as this, I think Mr M was paying such a significant proportion of his monthly income towards his credit commitments that 1Plus1 couldn't reasonably say that it was likely that he would be able to repay its loan in a sustainable way over the loan term. That's borne out by Mr M's credit history. Our investigator mentioned that most of Mr M's outstanding debt had been taken in the four months prior to this loan. He thought, reasonably in my view, that the extent of this borrowing, which included payday lending, didn't feel a reasonable amount for someone to have taken in such a short space of time and indicated that Mr M had likely become reliant on borrowing to maintain his finances.

I've taken into account that 1Plus1 doesn't agree that Mr M's debt was excessive. But I've noted that it seems to be relying on figures that appear to include mortgage borrowing when thinking about average household debt which doesn't reflect Mr M's particular circumstances. So this doesn't affect my view overall that as a single wage earner with very limited financial responsibility for essential living costs and no dependants, his overall indebtedness did seem high for someone in his circumstances. And I think 1Plus1 should have realised that there was no obvious explanation why Mr M should apparently need to rely to this extent on obtaining expensive credit.

To my mind, 1Plus1 should've been alerted to the risk that it couldn't safely rely on what Mr M had told it about how he spent his money. In these circumstances, I don't think it could make a fair judgement about sustainability and be satisfied that the loan would be sustainably affordable over the loan term.

I've taken into account that 1Plus1 understood that the loan was intended for debt consolidation. But 1Plus1 didn't have control over how Mr M used the loan as it paid the loan balance to him. And even if Mr M had used this loan to repay some existing debt, I don't think 1Plus1 had sufficient reason to think this would've improved his overall position sufficiently to achieve a significant and sustainable improvement in his financial situation – given the relatively small loan amount compared to his outstanding indebtedness overall.

Even with the planned debt consolidation that 1Plus1 factored into its affordability assessment, Mr M would still need to pay around half his take home pay towards servicing his debt.

So I think it's fair to say that the indications were that he would most likely remain in serious financial trouble regardless and still be dependent on continuing the borrowing pattern 1Plus1 could see apparent already.

For all these reasons, I believe that 1Plus1 ought reasonably to have been aware that this loan was likely to be detrimental to Mr M and recognised that it shouldn't provide it.

In coming to my decision I've thought carefully about everything 1Plus1 has said, including its detailed responses to our investigator's view. I appreciate the time 1Plus1 has spent setting out its position in some detail. I acknowledge that 1Plus1 has taken a different view to me and if I have not referred to each point raised it's because I have nothing further I can usefully add to what our investigator has said already. I have concentrated on what I consider to be the main points that affect the outcome of this complaint. I hope that setting things out as I've done helps to explain how I've reached my conclusions.

As Mr M has been further indebted with a high amount of interest and charges on a loan that he shouldn't have been provided with, I'm satisfied that he has lost out as a result of what 1Plus1 did wrong.

So, 1Plus1 needs to put things right.

### **Putting things right**

Our investigator didn't recommend that 1Plus1 should pay any additional redress. Mr M hasn't commented on that and I haven't seen anything which makes me think 1Plus1 acted unfairly towards Mr M in any other way. So I'm not awarding any additional redress.

And I think it is fair and reasonable for Mr M to repay the capital amount that he borrowed, because he had the benefit of that lending.

But he has been charged extra for a loan that should not have been provided to him. In line with this Service's approach, Mr M shouldn't repay more than the capital amount he borrowed.

1Plus1 should do the following:

- add up the total amount of money Mr M received as a result of having been given this loan. The repayments Mr M made should be deducted from this amount.
- If this results in Mr M having paid more than he received, then any overpayments should be refunded along with 8% simple interest\* (calculated from the date the overpayments were made until the date of settlement).
- If any capital balance remains outstanding, then 1Plus1 should attempt to arrange an affordable/suitable payment plan with Mr M.
- Whilst it's fair that Mr M's credit file is an accurate reflection of his financial history, it's unfair that he should be disadvantaged by any adverse information recorded about a loan that was unfairly provided. So 1Plus1 should remove any negative information recorded on Mr M's credit file regarding the loan.

\*HM Revenue & Customs requires 1Plus1 to deduct tax from this interest. 1Plus1 should give Mr M a certificate showing how much tax has been deducted if he asks for one.

### **My final decision**

I uphold Mr M's complaint and direct 1Plus1 Loans Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 24 July 2022.

Susan Webb  
**Ombudsman**