DRN-3020595

The complaint

Mr M says Loans 2 Go Limited irresponsibly lent to him.

What happened

Mr M took out an 18-month instalment loan for £500 from Loans 2 Go on 15 February 2020. The monthly repayment was £114.28 and the total repayable was £2,057.04.

He says he was short of money and struggling. It wasn't clear how much interest he would have to pay. He wants Loans 2 Go to accept that as he has paid almost double what he borrowed the debt is settled.

Our investigator recommended the complaint should be upheld. She said Loans 2 Go was wrong to lend to Mr M. The lender disagreed saying based on the loan value and the results from the credit search its checks were proportionate.

It asked for an ombudsman's review, so the case was passed to me to make a decision.

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 rules and regulations when Loans 2 Go lent to Mr M required it to carry out a reasonable and proportionate assessment of whether he 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 Loans 2 Go had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr M. In other words, it wasn't enough for Loans 2 Go to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr M.

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 Loans 2 Go did what it needed to before agreeing to lend to Mr M. So to reach my conclusion I have considered the following questions:

- did Loans 2 Go complete reasonable and proportionate checks when assessing Mr M'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 Loans 2 Go make a fair lending decision?
- did Loans 2 Go act unfairly or unreasonably in some other way?

I can see Loans 2 Go asked for some information from Mr M before it approved the loan. It asked for his monthly income and expenditure. It verified his declared income using a third-party tool that confirmed his minimum income. It increased his declared expenditure to ensure it was reasonable based on national statistics and it added a buffer. It checked Mr M's credit file to understand his existing monthly credit commitments and credit history. From these checks combined Loans 2 Go concluded Mr M had enough disposable income for the loan to be affordable.

I think these checks were initially proportionate given the size and term of the loan and its repayments. But I think based on the information it gathered Loans 2 Go should have carried out further checks to better understand Mr M's finances. I say this as there was such a variance between Mr M's declared income (£3,400) and expenditure (£400) and the results of its initial checks (£2,513.71 income and costs of £2,059.33). However, I won't comment further on this as even based on the information it gathered I don't think Loans 2 Go made a fair lending decision. I'll explain why.

The credit check Loans 2 Go completed showed Mr M had debts of £15,860 - £2,141 of this was on payday loans, two of which were in arrears. Mr M wasn't taking out this loan to settle any of his existing debt. Based on his recent pattern of borrowing I think it was most likely Mr M was trapped in a high-cost cycle of borrowing to repay.

So, irrespective of what the actual income and expense figures were I think the lender ought to have realised there was a high risk of Mr M not being able to sustainably repay the loan – that is without borrowing to repay or suffering some other adverse financial consequence. He had already started to not to be able to meet his existing commitments. And it needed to consider these factors to meet its regulatory obligations, not just the pounds and pence affordability. It could also see Mr M was already spending a significant percentage of his income (whether calculated based on his verified minimum income, or his declared income) on servicing his debt. This ought to have been another indicator that the loan was most likely not sustainably affordable for Mr M.

It follows I think Loans 2 Go was wrong to lend to Mr M.

I haven't found any evidence Loans 2 Go acted unreasonably or unfairly towards Mr M in some other way. I know Mr M is unhappy with the level of interest he was charged. I accept it was high, but Mr M had to actively engage in the loan application process, so I think it's likely that he was aware of what he was agreeing to pay. It was clearly set out on the loan agreement. And I haven't seen anything which makes me think that Loans 2 Go treated Mr M unfairly or breached industry practice regarding interest charges. But in any event, the interest and charges will be refunded as I've concluded this loan shouldn't have been given.

Putting things right

I think it's fair and reasonable for Mr M 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.

Loans 2 Go should:

- Remove all interest, fees and charges from the loan and treat all the payments Mr M made as payments towards the capital.
- If reworking Mr M's loan account results in him 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 Mr M's loan account leaves an outstanding capital balance the parties should work together to agree a repayment plan that is fair and affordable for Mr M.
- Remove any adverse information recorded on Mr M'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 Mr M a certificate showing how much tax it's deducted, if he asks for one.

My final decision

I am upholding Mr M's complaint. 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 Mr M to accept or reject my decision before 28 June 2022.

Rebecca Connelley
Ombudsman