

## The complaint

Mr R complained that Loans 2 Go Limited lent to him irresponsibly and provided him with loans that were unaffordable.

## What happened

Loans 2 Go provided loans to Mr R as follows:

Date taken	Amount	Term	Monthly repayment	Date repaid
6 August 2019	£500	18 months	£114.28	12 August 2019
9 December 2019	£1,000	18 months	£228.56	Outstanding

Mr R told us that when Loans 2 Go provided the loans it didn't properly check affordability and had it done so it would've seen his evident gambling problem and realised he couldn't afford the loans.

One of our adjudicators looked into the complaint. She said the first loan had been cancelled at no cost or charge to Mr R – so she didn't need to investigate that further as he hadn't lost out financially. But she didn't think Loans 2 Go should have provided Mr R with loan 2 and so she upheld that part of the complaint and set out the steps Loans 2 Go should take to put things right.

Loans 2 Go didn't agree with the adjudicator's assessment.

It mainly said:

- it didn't think that the results of its credit report were sufficient evidence to suggest that further checks were necessary
- it recognised that Mr R's credit report showed he had some arrears but felt that the remaining balance was insignificant. And whilst he had been in an arrangement in arrears previously with a utilities provider, on the whole the account was up to date and there was insufficient evidence to suggest that Mr R was under financial duress
- Loans 2 Go didn't feel that the loan application should have been rejected because of problems in the past
- it was unfortunate that Loans 2 Go wasn't made aware of Mr R's gambling, but it

wasn't required to ask for bank statements and so it couldn't say that the checks it made weren't proportionate. Also, Loans 2 Go didn't think it was something it would have discovered from doing proportionate checks

- Mr R knew he had problems but deliberately withheld the information in order to gain a pecuniary benefit. So Loans2Go didn't feel it can be held responsible.

Loans 2 Go requested that the case be referred to an ombudsman for review. So 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.

There are some key questions I need to consider in order to decide what's fair and reasonable in the circumstances of this particular complaint:

- ☐ Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Mr R would be able to repay the loan in a sustainable way? If so, did Loans 2 Go make a fair lending decision?
- ☐ If not, what would reasonable and proportionate checks have shown at the time?
- ☐ Did Loans 2 Go act unfairly or unreasonably in some other way?

Before agreeing to lend, lenders must work out if a borrower can 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 lender must take reasonable steps to satisfy itself that the borrower can sustainably repay the loan – in other words, without needing to borrow elsewhere.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. For example, when thinking about what a borrower has left to spend on a new loan after paying other expenses, as well as taking into account the loan amount, the cost of the repayments and how long the loan is for, a proportionate check might mean a lender should 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 more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

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 (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).

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr R's complaint.

Mr R seems happy with what our adjudicator said about loan 1 and so I don't think I need to say any more about the first loan – except to say that I've reviewed this as part of my overall consideration of this complaint and I agree with our adjudicator.

So I will concentrate in my decision on loan 2.

Loans 2 Go asked Mr R about his income and expenditure and did some credit checks – which it has sent me. Loans 2 Go hasn't explained in detail how it worked out its affordability calculation but I've taken into account the information Loans 2 Go gathered from Mr R. I think it's fair to say that the figures Mr R declared seemed to suggest he had ample disposable income after taking into account his monthly expenditure and it appeared that he should have been able to comfortably afford the monthly repayments for this loan.

But given what it saw in the credit report it acquired showing details of Mr R's credit history, I think our adjudicator was right to be concerned about Loans 2 Go making its lending decision without doing more in-depth checks or taking steps to verify the information it was relying on. I say this particularly bearing in mind that Mr R was signing up to repay the loan for the next 18 months. I think that was a long enough loan term to go beyond what would be a reasonably foreseeable period to expect complete stability in his finances. And it was evident that he had some hallmarks of a person in serious financial difficulty apparent on his credit report.

I don't agree with Loans 2 Go that the information it saw wasn't enough to impact on its lending decision. What Mr R had told Loans 2 Go about his income and expenditure looked to be clearly at odds with what Loans 2 Go saw on its own credit checks, which showed clear indications that Mr R hadn't yet resolved his money problems.

It isn't unusual for applicants for this type of high cost loan to have a credit history showing other borrowing or an impaired credit record – and these things wouldn't necessarily be reasons to prompt a responsible lender to decline a loan application. But Loans 2 Go was aware that Mr R had active court debt and it saw clear signs of payment problems on other accounts. So thinking about all the information Loans 2 Go had gathered, I don't think it was able to be satisfied on the information it had in front of it that it could safely conclude that its loan would be sustainably affordable for Mr R.

I think Loans 2 Go should have realised that it was no longer reasonable to base its lending decision on information Mr R was providing. I think it would have been proportionate for Loans 2 Go to have taken steps to independently verify the true state of Mr R's finances and it needed to do more in-depth checks to ensure it properly understood his financial situation before agreeing to provide this loan.

So, I've looked at what I think proportionate checks would likely have shown. Mr R has provided his bank statements so I've looked through these to see what Loans 2 Go was likely to have found out.

To be clear, I'm not suggesting the lender should necessarily have done this. But, in the absence of other evidence, I think these give a reasonable guide as to Mr R's finances at the time.

And had Loans 2 Go looked in depth at Mr R's finances it would likely have seen that he was facing serious problems managing his money.

I think it would have learnt that Mr R was regularly spending significant amounts on what appear to be gambling transactions.

So I don't think it was reasonable for Loans 2 Go to conclude that it was likely Mr R would be able to repay this loan in a sustainable manner. For these reasons, I am planning on upholding Mr R's complaint that he should not have been given the loan.

### **Putting things right**

I haven't seen anything which makes me think that Loans 2 Go acted unfairly or unreasonably towards Mr R in some other way. So I haven't identified any reason for me to award any additional redress.

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

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

If Loans 2 Go has sold any outstanding debt it should buy this back if able to do so and then take the following steps.

Otherwise, Loans 2 Go should liaise with the new debt owner to achieve the results outlined below and do the following:

☐ add up the total amount of money Mr R received as a result of having been given loan 2. The repayments Mr R made should be deducted from this amount.

☐ If this results in Mr R 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 Loans 2 Go should attempt to arrange an affordable/suitable payment plan with Mr R keeping in mind the need to treat him positively and sympathetically if he needs further time to pay. Loans 2 Go shouldn't pursue outstanding balances made up of principal already written-off.

☐ remove any negative information recorded on Mr R's credit file regarding the loan.

\*HM Revenue & Customs requires Loans 2 Go to deduct tax from this interest. Loans 2 Go should give Mr R a certificate showing how much tax has been deducted if he asks for one.

### **My final decision**

I uphold this complaint and direct Loans 2 Go Limited to take the steps I've set out above to put things right for Mr R.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 3 January 2022.

Susan Webb  
**Ombudsman**