

The complaint

Mr R complained that Loans 2 Go Limited didn't do proper affordability checks and so lent to him irresponsibly and provided a loan that was unaffordable.

What happened

Mr R took out a loan with Loans 2 Go as follows:

Date	Amount	Term	Typical monthly repayment	APR	Total amount repayable
16/12/2016	£500	18 months	£113.28*	990.1%	£2,039

When Mr R complained to Loans 2 Go it didn't uphold his complaint so he brought his complaint to us.

One of our investigators looked at the complaint and thought that Loans 2 Go shouldn't have provided the loan.

Our investigator recommended that the complaint should be upheld and set out directions indicating what Loans 2 Go should do to put things right.

Loans 2 Go disagreed with our investigator's view. In summary, it said a thorough affordability assessment was conducted which took into consideration Mr R's credit commitments and all his monthly expenditure and Loans 2 Go only made the decision to lend after confirming that the loan would not put Mr R in any financial detriment.

So, as the complaint hasn't been resolved, it comes to me for 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.

We've set out our general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website.

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 require the lender to 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 looks affordable, a lender still needs to think about whether there's 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 who is already struggling with debt that can't be repaid in a sustainable way.

I've thought about everything and what this means for Mr R's complaint.

Loans 2 Go asked Mr R about his income and expenses.

It also did its own credit check to understand Mr R's credit history and find out what he was paying towards his current credit commitments.

Loans 2 Go looked at his wage slips and verified that Mr R's minimum monthly pay was around £1,599. After reviewing the information it had gathered, Loans 2 Go calculated that he would need to spend approximately £1,281 in total each month. It also allowed for a 'buffer' of 10% of his verified expenditure to account for any fluctuations in his monthly income or expenditure.

Based on this, Loans 2 Go said Mr R should've been able to afford the monthly repayment on this loan.

Our investigator didn't think the checks Loans 2 Go carried out were proportionate, but I don't need to make any findings on this point because I think Loans 2 Go had already gathered information that should've prompted it to decline this loan application.

I say this because, like our investigator, I think it's fair to say that the credit checks Loans 2 Go obtained showed clear signs that Mr R might already be financially over-stretched and in serious financial difficulty.

I agree with Loans 2 Go that 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 I think Loans 2 Go should have been concerned to see that when Mr R applied for this loan he had recently taken out other costly borrowing and his debt servicing costs to existing creditors were already at least £500 per month.

I think this was already a large portion of his pay to be spending just on repaying debt. By the time he needed to pay for this loan as well, this meant he would need to spend more than £600 each month on paying credit debts. Like our investigator, I think that this amount was such a significant proportion of his take home pay (by my reckoning, significantly more than a third), it was a clear indication that Mr R was, in reality, already experiencing financial difficulty and maintaining this level of debt was likely to be unsustainable.

Also, bearing in mind that the loan purpose wasn't stated, I don't think Loans 2 Go would've had any reason to think that this loan wouldn't simply add to Mr R's overall indebtedness and increase the likelihood of him needing to borrow further. So I don't think Loans 2 Go could reasonably have satisfied itself that providing the loan to Mr R wouldn't put him in a worse position by increasing his overall debts unsustainably.

Taking everything into account, I don't think Loans 2 Go should have agreed to provide the loan to Mr R.

And as he has been further indebted with expensive borrowing that he shouldn't have been provided with, I'm satisfied that he has lost out as a result of what Loans 2 Go did wrong.

So, I think Loans 2 Go needs to put things right.

Putting things right

Our investigator didn't recommend that Loans 2 Go should pay any additional redress. Mr R hasn't commented on that and I haven't seen anything which makes me think Loans 2 Go acted unfairly or unreasonably towards Mr R in any other way. So I'm not awarding 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 shouldn't repay more than this.

I understand the loan is repaid so Loans 2 Go should do the following:

- add up the total amount of money Mr R received as a result of having been given the loan. 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).
- Whilst it's fair that Mr R's credit file is an accurate reflection of his financial history, it's unfair that he should be disadvantaged by the decision to lend the loan. So Loans 2 Go should 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 28 June 2022.

Susan Webb
Ombudsman