DRN-3134612

The complaint

Mrs S says 1Plus1 Loans Limited lent to her irresponsibly.

What happened

Mrs S took out three guarantor loans from 1Plus 1 Loans. This means they were given on the basis that Mrs S had a guarantor who would be responsible for repaying the loans if she failed to. A summary of her borrowing follows. Loans 2 and 3 were used in part to repay the previous loans.

loan	taken out	value, £	term in months	monthly repayment, £	total repayable, £
1	20/3/2017	1,000	18	74.73	1,345.14
2	05/10/2017	2,000	24	122.50	2,940
3	01/06/2018	3,000	24	183.75	4,410

Mrs S says the lender did not do proper checks and its unaffordable lending made her poor financial situation worse.

Our investigator said Mrs S's complaint should be upheld. He said the checks were not proportionate. They showed signs of financial difficulty, but there also seemed to be an error in the lender's affordability assessment for loan 1 and if this was corrected it was not affordable. He said loans 2 and 3 should not have been given as there was evidence on her credit file that her financial position was getting worse.

1Plus 1 Loans disagreed and asked for an ombudsman's review. It said, in summary:

- it lends to customers that may not have a good history to give them a chance to improve their credit rating;
- it did not need bank statements to check Mrs S's declarations as it carried out income verification with a third party – and the regulations at the time, and now, do not require it to obtain bank statements;
- Mrs S was able to make her loan repayments without using short-term credit – her income increased at the time of each additional loan;
- the assessment for loan one used a rent of £425 not £225 – the file sent to this service includes a typo, it took into account the full amount; and
- the investigator said the short-term loans taken out at the time of loans 2 and 3 suggested Mrs S did not have the disposable income 1Plus 1 Loans had calculated, but it had taken all existing credit commitments into account.

It also made some more generic comments about this service's approach to complaints about irresponsible lending. I have considered its response in full, but will comment in this decision only on those points I find to be material to the outcome of this complaint.

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.

The Financial Conduct Authority (FCA) was the regulator when 1Plus1 Loans lent to Mrs S. 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 Mrs S could afford to repay what she 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 Mrs S. 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 Mrs S.

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 Mrs S, and have considered the following questions:

- did 1Plus1 Loans complete reasonable and proportionate checks when assessing Mrs S's loan applications to satisfy itself that she would be able to repay the loans in a sustainable way?
- if not, what would reasonable and proportionate checks have shown
- did 1Plus1 Loans make fair lending decisions?
- did 1Plus1 Loans act unfairly or unreasonably in some other way?

1Plus1 Loans asked for some information from Mrs S before it approved the loans. It asked about her residential and marital status and whether she had dependents. It asked for details of her income, and verified this externally, and her monthly living costs which it validated against national statistics. It added a buffer for unplanned expenses. Each time it checked her credit file to understand her credit history and current monthly repayments. From these checks combined 1Plus1 Loans concluded Mrs S would have sufficient monthly disposable income for each loan to be affordable.

I don't agree with its assessment. I'll explain why.

Loan 1

This is an extract from the affordability file 1Plus 1 Loans sent us showing Mrs S's essential monthly costs, they were mainly as she declared or adjusted based on national statistics (eg. food):

Day to Day Items Non Discretionary (VERBAL)	
Mortgage/Rent	£225
Council Tax	£60
Gas	£20
Electricity	£20
Water	£25
TV License	£12
Home Insurance	£0
Phone and Internet	£60
Food Costs	£200
Travel	£30
Clothing	£20
School Meals	£0
Media	£0
Other	£0
Credit File Total	£146
Emergency Buffer	£100
SURPLUS (Monthly) Verbal.	**£222**

I think this clearly shows it used £225 as Mrs S's rent payment, not £425 as it said in response to the investigator's assessment. Mrs S's income was £1,140 and the expenses listed above total £918. Had it used the full rent of £425 her surplus would have dropped to £22 making this loan unaffordable for Mrs S. I note there is a comment on the file that her partner splits the bills, but it is not clear how this impacts the numbers.

The lender has provided a copy of the application call. At the start of the recording Mrs S confirms her rent is £425 a month in total. The adviser later clarifies he just wants to know her share of household costs and she confirms she pays all of the £425 rent. She later comments that her partner contributes around £200 to household bills – which is perhaps why the lender reduced the rent payment to £225. But I think it needed more certainty around this point, and to understand who the named tenant was before making this deduction. As it pointed out it used £425 in the assessment for loan 2 which was only six months later and for loan 3. So I am not wholly satisfied its checks were good enough. However I won't comment further on this as even based on the information it gathered I think it was wrong to lend to Mrs S.

The lender could see from its credit checks that Mrs S had missed the latest payments on two of her credit cards that had sizeable balances. And Mrs S explained on the application call that she was about set up an arrangement to pay on each card indicating she was already struggling financially. I don't think it was right for 1Plus 1 Loans to lend to her knowing she was already failing to make her contractual repayments on other accounts. Mrs S was planning to settle some of her existing debts but made clear she would still be unable to meet her existing commitments on these two cards. In addition she had not yet agreed a payment plan with those two lenders, yet 1Plus 1 Loans suggested monthly amounts she would pay and based its affordability assessment on those figures.

The regulatory guidelines in place at the time of loan 1, set out in CONC 5.3.1(G) 6 a) i), meant that the lender needed to ensure the applicant would be able to meet their other reasonable commitments. I don't think it did this.

It follows I think 1Plus 1 Loans was wrong to give loan 1 to Mrs S.

Loans 2 and 3

When Mrs S applied for loan 2 1Plus 1 Loans could see from its checks that since loan 1 (just over six months ago) two credit cards defaults were now on her file and she had taken out four payday loans. She hadn't repaid the debt she had intended to when she took out loan 1 and her overall indebtedness had increased by over 150%. So there were clear signs that Mrs S was having problems managing her money and I think the lender ought to have realised it was unlikely she would be able to repay this loan without borrowing again or suffering financial harm.

Whilst the loan was in part to settle some of her debts, as well as for a holiday, she was only repaying around £1,900 of debt out of her total debts of £21,346 so I don't think this would have relieved her financial pressure, rather it prolonged her reliance on higher cost credit.

By the time Mrs S applied for the third loan the credit check showed her finances had further deteriorated. She had defaulted on two of the payday loans and this had resulted in a CCJ being registered against her in January 2018. Her overall indebtedness had increased to over £27,000. For the same reason as for loan 2 I think it was wrong for 1Plus 1 Loans to give loan 3 to Mrs S.

1Plus 1 Loans argues that its affordability assessments took into account all of Mrs S's credit commitments. Her income had increased and she could afford loans 2 and 3 along with all her existing credit commitments. I would make two points in response to this. It was required to do more than check the pounds and pence affordability and Mrs S was evidently already failing to meet her existing commitments. The regulatory guidelines in place at the time meant that the lender needed to ensure the applicant would be able to repay without borrowing to do so and without it adversely impacting their financial situation. I haven't seen evidence that it considered this – and it had information from the credit check that suggested Mrs S's finances were already under pressure.

And secondly, its calculations relied in part on Mrs S's declarations. It argues that it wasn't a requirement, then or now, to have sight of her bank statements as verification. To be clear, the investigator's assessment didn't say it was and made clear the regulations don't set out specific checks. But reviewing bank statements is one way a lender can complete a fuller financial review in circumstances where it is proportionate to do so. In the case of both loans 2 and 3, however, I think the credit checks gave sufficient indication that there was a risk further borrowing would be harmful to Mrs S.

In response to the point the lender made about the creditworthiness of its customer demographic I understand applicants will often have adverse data on their credit file. I have not reached the conclusions set out above because I think this is an automatic reason not to lend. I have carefully considered the timings of the adverse events and in each case what they demonstrated about Mrs S's financial situation at the point of each application. I cannot reconcile its statement in response to the investigator's assessment that it lends to 'customers who may not have good credit history and deserve a chance to improve their credit rating' with the lending decisions it made whilst aware of the increase in both Mrs S's total indebtedness and amount of adverse data on her file.

So overall, for the reasons set out above, I find 1Plus 1 Loans lent irresponsibly to Mrs S.

I haven't seen any evidence that 1Plus 1 Loans acted unfairly towards Mrs S in any other way.

Putting things right

I think it's fair and reasonable for Mrs S to repay the capital that she borrowed, because she had the benefit of that money. But she has paid interest and charges on loans that shouldn't have been provided to her. So 1Plus 1 Loans need to put things right.

It should:

- Add up the total amount of money Mrs S received as a result of having been given all three loans. The repayments she made should be deducted from this amount.
- If reworking Mrs S's loan accounts results in her 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 Mrs S's loan accounts leaves a capital balance outstanding 1Plus1 Loans should try to agree an affordable repayment plan with Mrs S.
- Remove any adverse information recorded on Mrs S's credit file in relation to the loan.

*HM Revenue & Customs requires 1Plus1 Loans to deduct tax from this interest. 1Plus1 Loans should give Mrs S a certificate showing how much tax it's deducted if she asks for one.

My final decision

I am upholding Mrs S'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 Mrs S to accept or reject my decision before 24 March 2022.

Rebecca Connelley
Ombudsman