DRN-3143863

The complaint

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

What happened

Mr R took out an 18-month instalment loan from Loans 2 Go in May 2021. It was for £250 and the monthly repayments were £57.14. The total repayable was £1028.52.

Mr R says he was struggling financially at the time and making loan applications one after the other. Having this loan caused him stress every month.

Our adjudicator said Mr R's complaint should be upheld. He thought the lender should have carried out further checks. And had it done so it would have realised the loan was most likely not sustainably affordable for Mr R.

Loans 2 Go disagreed, saying whilst there was some adverse data on Mr R's credit file it was on the whole positive and there wasn't enough evidence Mr R was under financial duress. Given the size of the loan its checks were proportionate, and it was not required to ask for bank statements.

As an agreement wasn't reached, the complaint was passed to me to make a final 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 R 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 R. 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 R.

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 R. So to reach my conclusion I have considered the following questions:

- did Loans 2 Go complete reasonable and proportionate checks when assessing Mr R'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 R before it approved the loan. It asked for his monthly income and expenditure. It verified his declared income with a payslip. It increased his declared expenditure to ensure it was reasonable based on national statistics. It checked Mr R's credit file to understand his existing monthly credit commitments and credit history. From these checks combined Loans 2 Go concluded Mr R 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. I'll explain why.

The credit check Loans 2 Go carried out showed that whilst Mr R was up-to-date with his active credit accounts, he had a County Court Judgement (CCJ) registered against him as recently as February 2021. And in the 24 months prior to this application Mr R had taken out 13 payday loans – so on average one every other month. So I cannot agree with the lender's opinion that the credit check was largely positive without enough evidence of financial duress. Given a seeming reliance on short-term high-cost credit I think it ought to have completed a fuller review of Mr R's finances.

I have reviewed Mr R's bank statements from the months prior to this loan. Loans 2 Go points out it was not required to do this. I am not saying it had to, but it's one way it could have better understood Mr R's financial situation. And it helps me work out what the lender would most likely have learnt had it carried out better checks.

These show Mr R was gambling frequently, spending in excess of his monthly income, and using more payday loans than appeared on the credit check to try to manage his money. So had Loans 2 Go carried out better checks I think it would have realised there was a high risk the loan would not be sustainably affordable for Mr R.

It follows I think Loans 2 Go was wrong to give the loan to Mr R. I have not found evidence that Loans 2 Go acted unfairly or unreasonably in some other way.

Putting things right

I think it's fair and reasonable for Mr R 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 R made as payments towards the capital.
- If reworking Mr R'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 R'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 R.
- Remove any adverse information recorded on Mr R'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 R a certificate showing how much tax it's deducted, if he asks for one.

My final decision

I am upholding Mr R'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 R to accept or reject my decision before 16 February 2022.

Rebecca Connelley
Ombudsman