DRN-3167774

The complaint

Mr L says Loans 2 Go Limited ("Loans 2 Go") irresponsibly lent to him.

What happened

This complaint is about a fixed term loan taken out by Mr L in June 2019 with Loans 2 Go. The loan was for £250 and Mr L agreed to repay over 18 months.

Our investigator upheld Mr L's complaint and thought Loans 2 Go shouldn't have provided the loan. She concluded that Loans 2 Go didn't make a fair lending decision based on the information it had in front of it. Loans 2 Go disagreed and the complaint was passed to me.

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.

Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Mr L's complaint. These two questions are:

1. Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Mr L would be able to repay loans in a sustainable way and without experiencing significant adverse consequences?
    - If so, did it make a fair lending decision?
    - If not, would those checks have shown that Loans 2 Go would've been able to do so?
2. Did Loans 2 Go act unfairly or unreasonably in some other way?

The rules and regulations in place required Loans 2 Go to carry out a reasonable and proportionate assessment of Mr L ability to make the repayments under this agreement. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so Loans 2 Go had to think about whether repaying the loan would be sustainable and cause significant adverse consequences *for Mr L*. In practice this meant that business had to ensure that making the payments to the loan wouldn't cause Mr L undue difficulty or significant adverse consequences.

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 L. Checks also had to be "proportionate" to the specific circumstances of the loan application.

In general, what constitutes 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/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);

- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);

- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

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

Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Mr L would be able to repay the loan in a sustainable way?

Loans 2 Go has provided evidence to show that before lending to Mr L it asked him for information about his income and expenditure. It also carried out a credit check and used Office of National Statistics (ONS) data to calculate living expenses. Before it agreed to give Mr L loan 1, it also verified his income. Based on those checks Loans 2 Go thought it was fair to lend.

Mr L was entering into a significant commitment with Loans 2 Go. He was agreeing to make monthly repayments for a period of 18 months. So, I think it is right that Loans 2 Go wanted to gather, and independently check, some detailed information about Mr L's financial circumstances before it agreed to lend to him. Like the investigator I don't think the checks Loans 2 Go carried out on this occasion were proportionate. This is because Mr L's declared income and expenditure figures was wide of the mark from those arrived at by Loans 2 Go after it had carried out its assessment. I think on seeing this Loans 2 Go ought to have carried out further checks to assure itself that Mr L could repay the loan in a sustainable way.

Did Loans 2 Go make a fair lending decision?

I don't need to look further into what Loans 2 Go would have seen if it had carried out further checks, as I don't think it made a fair lending decision, based on the information it did have in front of it.

Loans 2 Go has told our service that it was not given a clear indication of financial difficulty from the information it gathered. It says even though Mr L had open credit commitments, it was evident from the credit file that he was managing these properly and keeping on top of the payments. I have looked through the credit file that it gathered, and I don't think that this was the case.

Mr L had five open credit accounts. He had taken out an overdraft on an account. He then agreed an arrangement to repay with the finance provider. This arrangement then broke down and at the time he asked Loans 2 Go for a loan, he was 4 payments in arrears with this. Mr L was also 4 payments in arrears on a loan. In addition, he had only recently defaulted on a store card and had a large balance to repay. He had made a late payment on a communications account and was quite close to his credit limit on a credit card and a second overdraft. I can see that Mr L had taken several short-term loans and then repaid them leading up to him asking for this one.

I don't think Loans 2 Go reacted appropriately to the information it had in front of it. The number of short term loans that he took out leading up to him asking for a loan with it along with the arrears that he had accrued, ought to have given Loans 2 Go serious concerns about Mr L's finances and his ability to repay this loan in a sustainable way.

In conclusion, I don't think, based on what Loans 2 Go had in front of it, that it should have given Mr L this loan.

Loans 2 Go needs to put things right.

Did Loans 2 Go act unfairly or unreasonably in some other way?

I've also thought about whether Loans 2 Go acted unfairly in some other way and I haven't seen any evidence that it did.

Putting things right

- refund all interest and charges Mr L paid on the loan;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;
- remove any negative information about the loan from Mr L's credit file;

† HM Revenue & Customs requires Loans 2 Go to take off tax from this interest. Loans 2 Go must give Mr L a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons given above, I'm upholding Mr L's complaint. Loans 2 Go Limited should put things right for Mr L as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 21 June 2022.

Mark Richardson
Ombudsman