DRN-3192568

The complaint

Mr M complained that Loans 2 Go Limited didn't do affordability checks and so lent to him irresponsibly and provided loans that were unaffordable. He told us he was in a vicious circle, borrowing loans in order to repay other debt.

What happened

Mr M took out loans with Loans 2 Go as follows:

	Date taken	Total repayable	Term	Monthly repayment	Loan amount	Date repaid
Loan 1	16/07/2016	£2,039	18 months	£113.28	£500	28/09/2016
Loan 2	28/09/2016	£2,854.60	18 months	£158.59	£700	15/03/2018
Loan 3	15/03/2018	£2,650.68	18 months	£147.26	£650	02/08/2018
Loan 4	01/08/2018	£4,078.08	18 months	£266	£1,000	02/03/2019
Loan 5	22/05/2019	£2,057.04	18 months	£114.28	£500	28/10/2019
Loan 6	28/10/2019	£4,114.08	18 months	£228.56	£1,000	19/11/2019
Loan 7	12/02/2020	£3,085.56	18 months	£171.42	£750	21/05/2020

When Mr M complained to Loans 2 Go it didn't uphold his complaint although it offered a payment of £500 in full and final settlement as a gesture of goodwill. Mr M didn't feel this was enough to resolve things so he brought his complaint to us.

One of our adjudicators looked at the complaint and whilst she thought that Loans 2 Go hadn't done anything wrong when it provided loans 1-3, she felt that loans 4-7 shouldn't have been provided.

Our adjudicator recommended partly upholding the complaint about those loans and she set out directions indicating what Loans 2 Go should do to put things right.

Mr M confirmed that he accepted our adjudicator's view.

Loans 2 Go disagreed with our adjudicator's view. It mainly said it understood our adjudicator's approach but it hadn't found adequate reason to believe that Mr M's borrowing had been detrimental. It said he had an excellent payment history and there was no glaring indication ever given that he was unable to keep up with his credit commitments. It said that Mr M's credit profile improved over time – which didn't suggest he was struggling with credit.

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.

Mr M hasn't objected to what our adjudicator said with respect to not upholding his complaint about loans 1-3. So I don't think I need to say more about these loans except that I've reviewed the whole complaint and independently reached the same conclusion as our adjudicator. I haven't seen enough to say that Loans 2 Go shouldn't have provided the first three loans – so I'm not upholding this part of Mr M's complaint.

But, like our adjudicator, I don't think Loans 2 Go should've provided loan 4 – or any of the loans that followed. I'll explain why I say this.

Loans 2 Go asked Mr M about his income and expenses – including what he spent on his credit commitments. Loans 2 Go took steps to verify Mr M's monthly pay and it also did its own credit check to understand Mr M's credit history.

Based on this, Loans 2 Go said Mr M should've been able to afford the monthly repayment on this loan. But like our adjudicator I think Loans 2 Go should've realised that it couldn't rely on this information.

I think that by loan 4, Loans 2 Go should have realised that Mr M wasn't managing to repay his borrowing in a sustainable way.

I say this because Loans 2 Go could see that:

- looking back at his borrowing history, there were indications that Mr M had struggled to repay previous loans. He'd taken out extra borrowing when he took out loans 2 and 3 and he'd used both these loans to repay his previous borrowing

- he took out loan 4 around the time he paid loan 3. This was the third time in a row that he'd repaid a loan then quickly borrowed again – and this was his largest loan to date. By now he'd been repaying loans with Loans 2 Go for 20 months – and this loan was twice the size of the first loan he'd borrowed

- this didn't suggest that the lending provided by Loans 2 Go was enabling Mr M to improve his financial situation - it suggests to me that Mr M likely had to borrow again each time because he was facing money problems after repaying the previous loan - his financial situation overall evidently wasn't getting better

- this pattern of lending continued with the loans that followed – there were no significant breaks in-between loans and although the loan amounts varied, his overall pattern of lending suggests that Mr M was asking to borrow because his financial circumstances hadn't improved and he was now reliant on this sort of borrowing.

Despite what its affordability calculations might have shown, I think Loans 2 Go should have realised that taking out this number of unsecured loans and repaying them early, including topping up with extra borrowing from time to time, suggested that Mr M's finances were unstable and that he was using this type of borrowing much like short-term lending and, in reality, he was repeatedly refinancing his debt.

I think that all the indications were that Mr M wasn't managing his money well and he was already struggling financially.

To my mind, it should've been apparent that Mr M probably didn't have the amount of disposable income that Loans 2 Go calculated given his heavy reliance on expensive credit. The signs were that his finances were already under significant stress and his debt had become unmanageable. I don't think Loans 2 Go was reasonably able to be satisfied in these circumstances that Mr M would be able to make its loan repayments in a sustainable way. And so Loans 2 Go should have realised that it shouldn't have provided loans 4-7.

In coming to my decision I've carefully considered Loans 2 Go's response to our adjudicator's view – but in the circumstances I've described and for the reasons I've explained, this doesn't affect my decision. Repaying his loans without too much apparent difficulty and settling them early doesn't mean that Mr M was able to do so in a way that was sustainably affordable for him.

I don't think that anything Mr M told Loans 2 Go was sufficient to rebut the signs, evident by this stage from his borrowing track record with Loans 2 Go, that he was most likely using these loans to meet his immediate need to repay credit commitments.

And I haven't seen anything to make me think that the lending Loans 2 Go provided to Mr M from loan 4 onwards wasn't detrimental to him overall.

So I'm upholding the complaint about loans 4-7.

Putting things right

I think it is fair and reasonable for Mr M to repay the capital amount that he borrowed because he had the benefit of that lending - but he shouldn't repay more than this.

Loans 2 Go should do the following:

- add up the total amount of money Mr M received as a result of having been given loans 4-7. The repayments Mr M made should be deducted from this amount.
- If this results in Mr M 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 M bearing in mind the need to treat him positively and sympathetically if he still needs further time to pay what he owes.
- Whilst it's fair that Mr M's credit file is an accurate reflection of his financial history, it's unfair that he should be disadvantaged by the decision to lend loans 4-7. So Loans 2 Go should remove any negative information recorded on Mr M's credit file regarding loans 4-7.

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

My final decision

I uphold Mr M's complaint about loans 4-7 and direct Loans 2 Go Limited to take the steps I've set out above to put things right for Mr M.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 31 March 2022.

Susan Webb
Ombudsman