DRN-3202715

## The complaint

Mr H complained that Loans 2 Go Limited lent to him irresponsibly and provided him with unaffordable lending.

## What happened

Loans 2 Go provided a loan to Mr H as follows:

| Date taken | Loan amount | Term | Monthly repayment | Total amount repayable | Loan status |
|---|---|---|---|---|---|
| July 2019 | £500 | 18 months | £114.28 | £2,057.04 | Loan sold and settled |

When Mr H 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 explained why she was recommending that the complaint should be upheld and she set out directions indicating what Loans 2 Go should do to put things right.

Loans 2 Go disagreed with our investigator. It mainly said that Mr H's credit report was positive on the whole and it didn't think the information it showed was sufficient for our adjudicator to say it provided the loan irresponsibly.

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

## 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 approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding this complaint. Having done so, I am upholding Mr H's complaint for broadly the same reasons as our investigator. I'll explain my reasons.

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 have reviewed the information Loans 2 Go gathered when it agreed to provide this loan. Loans 2 Go relied on an online check to verify Mr H's declared income and recorded that it could rely on his minimum pay being around £1,687 per month. Alongside asking Mr H about his monthly expenses, Loans 2 Go also carried out its own credit checks to understand his credit history and current credit commitments.

Like our investigator, I think Loans 2 Go should have been concerned to see that when Mr H applied for this loan the credit report it obtained for him showed that he had been 1 payment in arrears for the previous two months on a loan he'd taken out less than 18 months earlier. This cost him £327 per month and he still owed £3,276. Despite what Loans 2 Go has said about not reading too much into an account that was just one month in arrears, I think this was a potential warning sign of financial difficulty. According to its affordability assessment, it looked like this loan should've been affordable for Mr H – yet the indications were that he had struggled to pay it and he had been unable to catch up with the contractual payment he missed.

It was also apparent that Mr H had large balances outstanding on four credit cards and they were all approaching the account limits. Looking more closely at what its credit checks revealed, I think Loans 2 Go was able to see that a couple of these cards were long standing and Mr H had taken out a new credit card around 9 months or so earlier (with a balance of £1,241) as well as another within the previous 6 months which he appeared to have run up to within £130 of its £1,500 credit limit in that space of time.

Loans 2 Go's checks showed that Mr H needed to pay around £591 in total each month in order to make meaningful inroads into repaying his credit cards and the loan - so it was evident that his debt repayments cost Mr H at least a third of his verified income.

Whilst having other outstanding lending or even an impaired credit history wouldn't be unusual for a borrower applying for this type of expensive borrowing, and it wouldn't necessarily be a bar to lending, I don't think Loans 2 Go took properly into account what the information it had gathered showed about Mr H's overall financial situation and the likelihood of him being able to pay its loan in a sustainable manner.

I've thought carefully about what I think a responsible lender should have made of all this information and in particular whether it was enough for Loans 2 Go to make a fair decision to lend, particularly as it hadn't recorded the loan purpose – so there was a serious risk that this loan would be adding to Mr H's overall indebtedness whilst at the same time increasing the amount of his monthly repayments beyond a sustainable level.

I agree with Loans 2 Go that a county court judgement outstanding from 2013 and an old settled default don't provide much useful information about Mr H's current finances.

But our adjudicator hadn't relied on these things particularly when she said that the indications were that Mr H wasn't managing his money well and he was already struggling financially.

I agree with our adjudicator that all in all, the signs were that his finances were, in reality, 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 H would be able to make its loan repayments in a sustainable way.

Also, bearing in mind the repayment of this loan on top of the debt Loans 2 Go saw Mr H was already responsible for paying, I think it’s fair to say that Mr H needed to pay a significant portion of his income towards credit.

And in my opinion, as a responsible lender, Loans 2 Go should’ve realised that Mr H would likely struggle to repay this loan – especially bearing in mind the 24 month loan term.

I think this is borne out by other information I’ve seen showing that Mr H continued to take out other borrowing, including a high cost unsecured loan from another provider just 2 months after this loan which he then defaulted on.

This clearly shows that he needed to borrow in order to be able to repay his existing credit commitments.

To my mind, it was reasonably foreseeable that Mr H would struggle to maintain his credit commitments, including the repayments for this loan and it’s unsurprising that the payment arrangement soon broke down and the loan was subsequently sold on.

Looked at overall, I can’t reasonably say Loans 2 Go made a fair lending decision based on the information in front of it. I don’t think Loans 2 Go was able to safely conclude that its loan would be sustainably affordable for Mr H. So it shouldn’t have provided it and Loans 2 Go needs to put things right.

**Putting things right**

I think it is fair and reasonable for Mr H to repay the capital amount that he borrowed, because he had the benefit of that lending.

But he has paid extra for lending that should not have been provided to him. In line with this Service’s approach, Mr H shouldn’t repay more than the capital amount he borrowed.

Loans 2 Go should buy back the outstanding debt it sold if able to do so and then take the following steps. Otherwise, Loans 2 Go should liaise with the debt owner to achieve the results outlined below and do the following:

- add up the total amount of money Mr H received as a result of having been given the loan. The repayments Mr H made should be deducted from this amount

- if this results in Mr H 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 there is a shortfall in repayments which leaves a capital amount outstanding, then Loans 2 Go should try and arrange an affordable payment plan with Mr H bearing in mind its obligation to treat Mr H sympathetically and fairly if he still needs further time to pay. Loans 2 Go should not seek to recover any capital previously written off

- whilst it's fair that Mr H's credit file is an accurate reflection of his financial history, it's unfair that he should be disadvantaged by any adverse information recorded about a loan that was unfairly provided. So Loans 2 Go should remove any negative information recorded on Mr H'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 H 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 H.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 9 April 2022.

Susan Webb
**Ombudsman**