DRN-3204525

The complaint

Mr F complains that the loans he had from Loans 2 Go Limited were unaffordable to him.

What happened

Mr F had two loans from Loans 2 Go between April 2020 and July 2020 as follows:

Loan	Date	Amount	Term	Monthly Repayment	Due	Repaid
1	14 Apr 2020	£600	18m	£137.13	14 Oct 2021	29 May 2020
2	1 Jul 2020	£800	18m	£182.84	1 Jan 2022	7 Jan 2021

Mr F says he was already in financial difficulty when he applied for the loans. He says if reasonable and proportionate checks had been carried out the loans would not have been approved.

Loans 2 Go says it carried out a thorough affordability assessment which included verifying Mr F's declared income and checking his credit file. It says it found Mr F had significantly understated his expenditure but that its calculations showed the repayments on both loans were affordable to him.

Our adjudicator recommended the complaint should be upheld. She found that the available information indicated Mr F was already struggling to manage his money and was paying a significant proportion of his income to existing credit commitments. She said that Loans 2 Go should have realised that further lending was unsustainable. Our adjudicator recommended that Loans 2 Go should deduct any payments Mr F made from the total money he received and refund any overpayments plus 8% interest. She said it should also ensure that any associated negative information is removed from Mr F's credit file.

Loans 2 Go responded to say, in summary, that it could see Mr F had financial problems historically, but that all his active borrowings were up to date. It says it therefore had no reason to carry out further checks as the credit report evidenced Mr F was managing his finances well.

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.

I need to take into account the relevant rules, guidance and good industry practice.

The Financial Conduct Authority (FCA) was the regulator when Loans 2 Go lent to Mr F. Its rules and guidance obliged it to lend responsibly. As set out in the regulator's Consumer

Credit Sourcebook (CONC), this meant that Loans 2 Go needed to take reasonable and proportionate steps to assess whether or not a borrower could afford to meet its loan repayments in a sustainable manner over the lifetime of the agreement.

CONC 5.2A.4R states that:

A firm must undertake a reasonable assessment of the creditworthiness of a customer before:

1. *entering into a regulated credit agreement; or*
2. *significantly increasing the amount of credit provided under a regulated credit agreement.*
3. *significantly increasing a credit limit for running-account credit under a regulated credit agreement.*

Repaying debt in a sustainable manner was defined as being able to meet repayments out of normal income without the customer having to borrow to meet the repayments, without failing to make any other payment the customer has a contractual or statutory obligation to make and without the repayments having a significant adverse impact on the customer's financial situation (CONC 5.2A.12R).

In general, I'd expect a lender to require more assurance the greater the potential risk to the borrower of not being able to repay the credit in a sustainable way. So, for example, I'd expect a lender to seek more assurance, potentially by carrying out more detailed checks

- the *lower* a person'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 *longer* the term of the loan (reflecting the fact that the total cost of the credit is likely to be greater and the borrower is required to make payments for an extended period).

In addition, as per CONC 5.2A.16G (3): *For the purpose of considering the customer's income, it is not generally sufficient to rely solely on a statement of current income made by the customer without independent evidence (for example, in the form of information supplied by a credit reference agency or documentation of a third party supplied by the third party or by the customer).*

And CONC 5.2A.17R (2) says: *The firm must take reasonable steps to determine the amount, or make a reasonable estimate, of the customer's current non-discretionary expenditure.*

Bearing all of this in mind, in coming to a decision on Mr F's case, I have considered the following questions:

- Did Loans 2 Go complete reasonable and proportionate checks when assessing Mr F's loan application to satisfy itself that he would be able to repay the loans 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?

Loan 1

When Mr F applied for his first loan, I've seen evidence to show Loans 2 Go asked about his financial circumstances, checked his credit file and verified his income. However, I'm not satisfied that these checks went far enough because:

- The loan was for a period of 18 months and Loans 2 Go needed to ensure the repayments were sustainable over that period;
- The credit check showed:
    - Two loans with combined repayments of almost £500;
    - Two credit cards with a total balance of £4,145;
    - An overdraft of almost £3,400;
    - Recent arrears on two accounts;
- Loans 2 Go's affordability calculation estimated a monthly disposable income of just over £200 after the new loan repayment;
- Mr F was already committed to paying around one third of his income on credit repayments – this rose to almost 40% with the new loan.

As Mr F was already committing a significant amount of his income to credit repayments, and Loans 2 Go didn't find he had a large amount of disposable income each month, I consider there were indications Mr F might already be struggling to manage his money. So I find proportionate checks should have included Loans 2 Go getting a better understanding of Mr F's financial situation, including his regular expenditure each month.

I've asked Mr F for a copy of his bank statements from the relevant period of time, as a reasonable proxy for what proportionate checks may have shown. These show:

- Mr F's income averaged around £1,900 per month;
- A car loan that wasn't on Mr F's credit file for which he was repaying £491 per month;
- Monthly direct debits of about £500;
- Active short-term loans;
- Account fees of about £100;
- Multiple returned direct debits.

In summary, Mr F was already committed to spending £1,100 on credit repayments – well over half his income. Given the direct debits and fees account for a further £600 per month, even before Mr F's rent, food and travel costs, it is clear he could not afford to repay a further loan.

I'm satisfied proportionate checks would also have indicated Mr F was already struggling to manage his money: he had a large overdraft, multiple returned direct debits and was using short-term lenders.

So, based on the evidence, I find Loans 2 Go did not make a fair lending decision for loan 1.

<u>Loan 2</u>

As Mr F's financial circumstances remained largely unchanged, I also find Loans 2 Go should not have approved loan 2, especially as it was for a higher amount.

In summary, I uphold Mr F's complaint about both loans and Loans 2 Go should put things right.

My final decision

My decision is that I uphold this complaint. Loans 2 Go Limited should:

- Add up the total amount of money Mr F received as a result of having been given loans 1 and 2. The repayments Mr F made should be deducted from this amount.
    - If this results in Mr F 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 Everyday Loans should attempt to arrange an affordable and suitable payment plan with Mr F;
- Remove any negative information recorded on Mr F's credit file regarding loans 1 and 2.

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 26 April 2022.

Amanda Williams
Ombudsman