DRN-3206936

The complaint

Mr P complains that Loans 2 Go Limited lent to him in an irresponsible manner.

What happened

Mr P was given two loans by Loans 2 Go. Mr P first borrowed £250 in September 2018 that he agreed to repay in 18 monthly instalments. Around six months later, in March 2019, Mr P refinanced his original loan and took some additional borrowing. His second loan was for £300, and he also agreed to repay that loan in 18 monthly instalments. Mr P has faced problems meeting his repayments on the second loan and his outstanding balance has been transferred to a third-party debt collection company.

When Mr P complained to Loans 2 Go it explained to him why it didn't think it had been wrong to provide either loan. But, as a gesture of goodwill, Loans 2 Go offered to reduce Mr P's outstanding balance by £560.56. Mr P didn't accept that offer and brought his complaint to this Service.

Mr P's complaint has been assessed by one of our investigators. He thought that the checks Loans 2 Go did before agreeing the first loan showed that Mr P was facing serious problems managing his money. And he thought those problems persisted at the time the second loan was agreed. So our investigator didn't think either loan should have been agreed, and asked Loans 2 Go to pay Mr P some compensation.

Loans 2 Go accepted our investigator's findings in relation to the second loan. But it still thought it had been reasonable to give the first loan to Mr P. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process. If Mr P accepts my decision it is legally binding on both parties.

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 Mr P's complaint.

The rules and regulations at the time Loans 2 Go gave these loans to Mr P 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 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 credit sustainably would cause difficulties or adverse consequences for Mr P. In practice this meant that Loans 2 Go had to ensure that making the repayments wouldn't cause Mr P undue difficulty or 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 any repayments on Mr P.

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.

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 P.

Loans 2 Go gathered some information from Mr P before it agreed each loan. It asked him for details of his income, and his normal expenditure. It then used some industry data and the results of the credit check to revise Mr P's declared expenditure upwards. And it verified his income using a third-party checking service.

Each time Mr P was entering into a significant commitment with Loans 2 Go. He would need to make monthly repayments for a period of 18 months. So I think it was right that Loans 2 Go wanted to gather, and independently check, some detailed information about Mr P's financial circumstances before it agreed to lend to him. I think that the checks I've described above were sufficient to achieve that aim – I think Loans 2 Go's checks were proportionate.

But simply performing proportionate checks isn't always enough. A lender also needs to react appropriately to the information shown by those checks. Those results might sometimes lead a lender to undertake further enquiries into a consumer's financial situation. Or, in some cases, the results might lead a lender to decline a loan application outright. And that is what I think should have happened in this case.

From the information it gathered I think it was reasonable for Loans 2 Go to conclude that the results of its checks suggested that Mr P might be able to afford his loan repayments. But I don't think that was the only information that Loans 2 Go needed to consider from the results of the checks. I think it would have been important for Loans 2 Go to consider whether it was likely that Mr P would be able to make his repayments in a sustainable manner – that is from his normal income and/or savings, without the need to borrow further.

There was no indication that Mr P's circumstances had changed, or were about to change, at the time he took either loan. So I think what had happened with his finances in the months leading up to the loan would be a reasonable indication of what was likely to happen in the future. And given the size of each of the loans I don't think that Loans 2 Go had any reasonable expectation that its lending would be used to consolidate any other debts.

The credit check results, at the time of the first loan, showed that Mr P was heavily reliant on credit. He had at least eight other active credit accounts, many of which had been opened in the year before the loan. And he also had a significant number of closed short-term loans - in the three months before this loan was taken he'd settled at least four other loans. So I think that paints a very clear picture of someone who was facing serious problems managing their money. I think Loans 2 Go should have determined that it was highly likely that Mr P was needing to borrow in order to meet his day to day living costs, as well as repaying the borrowing that he had outstanding. I can see no reason why Loans 2 Go should have concluded that pattern wouldn't continue after its loan had been granted. So giving Mr P the loan would only serve to further increase his debt burden.

Mr P asked to refinance his loan after just six months of the agreed term. I think that in itself might have caused some concern to Loans 2 Go. But the credit check results showed a further, and significant, deterioration in Mr P's finances. By that time he had at least 16 other active accounts. And he had continued to borrow and repay new short-term loans regularly throughout the time he held his first loan. Although he appeared to have met his repayments on time, it seems unlikely that he did so in a sustainable manner – it's far more likely that Mr P only met his agreed repayments by taking further borrowing from other lenders.

So I don't think Loans 2 Go should have given either loan to Mr P. I think that the results of its credit checks should have indicated the serious problems that Mr P was facing managing his money. Loans 2 Go needs to pay Mr P some compensation.

Putting things right

I don't think Loans 2 Go should have agreed to lend to Mr P in September 2018 or March 2019. So Loans 2 Go should;

- refund all the interest and charges Mr P paid on the first 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 interest and charges still outstanding on loan 2 and treat all the payments Mr P made towards this loan as payments towards the capital
- if reworking Mr P's loan 2 account as I've directed results in Mr P effectively having 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 P's loan 2 account leaves an amount of capital still to be paid, then Loans 2 Go can use the total refund for the first loan (after the deduction of tax) to offset this. And if there is still an outstanding capital balance then I remind Loans 2 Go that it should take a sympathetic view when seeking to agree an affordable repayment plan with Mr P

- remove any adverse information recorded on Mr P’s credit file in relation to both loans

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

The redress I have set out above in relation to loan 2 assumes that Loans 2 Go is able to take back that debt from the third party. If Loans 2 Go is unable, or unwilling, to do this it must ensure that its interest and charges on both loans, and any other interest and charges added by the third party, are refunded to Mr P so he can choose whether to use the compensation to settle his debt directly.

My final decision

My final decision is that I uphold Mr P’s complaint and direct Loans 2 Go Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr P to accept or reject my decision before 20 April 2022.

Paul Reilly
Ombudsman