

The complaint

Mr I says 1Plus1 Loans Limited (1Plus1) irresponsibly lent to him.

What happened

This complaint is about a Guarantor loan taken out by Mr I in December 2016 with 1Plus1. The loan was for £4500 and Mr I agreed to repay over 60 months.

Our investigator upheld Mr I's complaint and thought 1Plus1 shouldn't have provided the loan. She concluded that 1Plus1 didn't make a fair lending decision based on the information it had in front of it. 1Plus1 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 I's complaint. These two questions are:

1. Did 1Plus1 complete reasonable and proportionate checks to satisfy itself that Mr I 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 1Plus1 would've been able to do so?
2. Did 1Plus1 act unfairly or unreasonably in some other way?

The rules and regulations in place required 1Plus1 to carry out a reasonable and proportionate assessment of Mr I's 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 1Plus1 had to think about whether repaying the loan would be sustainable and cause significant adverse consequences *for Mr I*. In practice this meant that business had to ensure that making the payments to the loan wouldn't cause Mr I undue difficulty or significant adverse consequences.

In other words, it wasn't enough for 1Plus1 to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr I. 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 I's complaint.

Did 1Plus1 complete reasonable and proportionate checks to satisfy itself that Mr I would be able to repay the loan in a sustainable way?

1Plus1 has provided evidence to show that before lending to Mr I it asked him for information about his income and expenditure. It also carried out a credit check and obtained a payslip to verify Mr I's income. Based on those checks 1Plus1 thought it was fair to lend.

Mr I was entering into a significant commitment with 1Plus1. He was agreeing to make monthly repayments for a period of 5 years. So, I think it is right that 1Plus1 wanted to gather, and independently check, some detailed information about Mr I's financial circumstances before it agreed to lend to him. I think that the checks it did were sufficient to achieve that aim. I think 1Plus1's checks were proportionate.

Did 1Plus1 make a fair lending decision?

I have concluded 1Plus1 made proportionate checks. But simply performing proportionate checks isn't always enough. A lender also needs to react appropriately to the information those checks show. 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.

Our investigator concluded in her view that 1Plus1 needed to undertake further checks based on what it had gathered. In particular she felt it needed to do more, after it had seen the results of its credit check. So, she asked Mr I to provide bank statements so she could get a better idea of what 1Plus1 would have seen if it had done so. Mr I was unable to provide this information. So, our investigator on balance, felt 1Plus1 shouldn't have given the loan anyway, based on what it would have seen in the credit check it had gathered. I agree with our investigator, for largely the same reasons. I will explain what these are.

1Plus1 would have seen within the credit check it gathered that Mr I had around £18,000 in unsecured debt to repay and had 18 active accounts. I think this is quite a lot of debt for Mr I

to repay considering the amount of income he was receiving, based on what he had told 1Plus1 his income was. This was recorded down by 1Plus1 as £1080 a month. Mr I had disclosed to 1Plus1 that he was living at home and had no accommodation costs but had some living expenses such as food and clothing at around £250 a month. 1Plus1 added a buffer of £100 for emergencies. 1Plus1 loans could then see that he had a significant amount of credit repayments each month at around £1331. This monthly figure was higher than his disclosed monthly income. I can also see though that taking out this loan would reduce that relatively high monthly figure to £358. 1Plus1 calculated that based on this the loan would be affordable for Mr I. But like our investigator, I think there was quite a lot of information on the credit report, alongside the overall figure of debt that Mr I had accrued, that I think ought to have given it serious concerns about Mr I's ability to sustainably repay this loan especially as it was over a long term of 5 years.

I have drawn that conclusion, because Mr I had several accounts that were either in arrears or had defaulted. In 2 of these accounts Mr I had defaulted only a month before asking 1Plus1 for this loan. I think on seeing all of this, 1Plus1 ought to have seen that Mr I was having problems managing his finances and repaying his existing credit. In addition, I think it would have been harmful to Mr I for him to add to his already high overall unsecured debt levels.

In conclusion, I don't think, based on what 1Plus1 had in front of it, that it should have given Mr I this loan. I don't think it made a fair lending decision.

1Plus1 needs to put things right.

Did 1Plus1 act unfairly or unreasonably in some other way?

I've also thought about whether 1Plus1 acted unfairly in some other way and I haven't seen any evidence that it did.

Putting things right – what 1Plus1 need to do

- refund all interest and charges Mr I 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†;
- If there is a remaining balance left to repay, 1Plus1 should work with Mr I to find an affordable repayment plan.
- remove any negative information about the loan from Mr I's credit file;

† HM Revenue & Customs requires 1Plus1 to take off tax from this interest. 1Plus1 must give Mr I 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 I's complaint. 1Plus1 Loans Limited should put things right for Mr I as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr I to accept or reject my decision before 25 July 2022.

Mark Richardson
Ombudsman