

The complaint

Ms H complained that Loans 2 Go Limited lent to her irresponsibly and provided a loan that was unaffordable.

What happened

Ms H took out a loan with Loans 2 Go as follows:

Date taken	Loan amount	Term -	Monthly repayment	Date paid
September 2019	£350	18 months	£79.99	1 March 2021

The loan purpose was recorded as 'home improvements' on the application.

When Ms H complained to Loans 2 Go it didn't uphold her complaint so she brought her complaint to us. One of our adjudicators looked at the complaint and thought that Loans 2 Go shouldn't have provided the loan. Our adjudicator recommended that the complaint should be upheld and set out directions indicating what Loans 2 Go should do to put things right.

Loans 2 Go disagreed with our adjudicator's view. It mainly said its lending decision was fair as Ms H would have still been left with around £122 after paying for this loan on top of her other monthly outgoings. So, as the complaint hasn't been resolved, it comes to me for a decision.

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.

Loans 2 Go asked Ms H about her income and expenses – including what she spent on her credit commitments. It also did its own credit check to understand Ms H's credit history.

Loans 2 Go verified that Ms H's minimum monthly pay was around £1,207. After reviewing the information it had gathered, Loans 2 Go boosted the monthly expenditure figure that Ms H had declared and calculated that she would need to spend approximately £1,005 in total each month. It also took into account nationally available statistics when thinking about Ms H's likely spending and allowed for a 'buffer' of 10% of her verified expenditure to account for any fluctuations in her monthly income or expenditure. Based on this, Loans 2 Go said Ms H should've been able to afford the monthly repayment on this loan.

Like our adjudicator I think those checks were broadly proportionate. But despite recording information that appeared to show that Ms H had enough spare cash each month to cover the loan monthly repayments, I think Loans 2 Go should've realised that it couldn't rely on this information. That's because what Ms H had declared was significantly at odds with what Loans 2 Go saw on its credit checks showing Ms H's credit history.

Whilst having 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 thought carefully enough about what the information it had gathered showed about Ms H's overall financial situation and the likelihood of her being able to pay its loan in a sustainable manner.

Loans 2 Go could see that Ms H had been taking loans (including short-term loans) without any break in borrowing since February 2018. And when she applied for this loan she already had active loans, including one short-term loan taken the month before and two unsecured loans taken out just a couple of months earlier.

She also had three active store/credit cards approaching (or in one case just over) the account limit.

It was evident that she'd had some payment problems previously with an active county court judgement dating back to 2015 showing on her record.

And I think the fact that Loans 2 Go was able to see that Ms H was already spending almost a third of her income just on servicing her debt was itself a clear warning sign of financial difficulty – particularly bearing in mind her relatively low income.

I've taken into account everything Loans 2 Go has said in response to our adjudicator's assessment about the way it assessed affordability. And 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 understood that Ms H intended to spend the money so it was aware this loan was going to add to her indebtedness.

I think our adjudicator was right to say that all the indications were that Ms H was already struggling financially. To my mind, it should've been apparent that Ms H

probably didn't have the amount of disposable income that Loans 2 Go calculated - or indeed any spare cash, given her over-reliance on taking out expensive credit.

All the signs were that her finances were, in reality, under significant stress and her debt was already unmanageable. I don't think Loans 2 Go was reasonably able to be satisfied in these circumstances that Ms 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 credit commitments Loans 2 Go saw in its credit checks, I think it's fair to say that Ms H needed to pay a significant portion of her income towards credit. And in my opinion, as a responsible lender Loans 2 Go should've realised that Ms H would likely struggle to repay this loan – especially bearing in mind the 18 month loan term.

So, thinking about all the information Loans 2 Go had gathered, I can't reasonably say that it 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 Ms H. And 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 Ms H to repay the capital amount that she borrowed because she had the benefit of that lending - but she shouldn't repay more than this.

Loans 2 Go should do the following:

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

*HM Revenue & Customs requires Loans 2 Go to deduct tax from this interest. Loans 2 Go should give Ms H a certificate showing how much tax has been deducted if she 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 Ms H.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms H to accept or reject my decision before 6 April 2022.

Susan Webb
Ombudsman