

Complaint

Miss I has complained that Loans 2 Go Limited ("L2G") irresponsibly provided her with unaffordable loans.

Background

L2G provided initially provided Miss I with a loan of £250 in December 2019. This loan had an APR of 1,013.2% and a 18-month term. This all meant the total amount repayable of £1,028.52 was due to be repaid in 18 monthly instalments of £57.14. This loan was settled shortly after it was taken out.

L2G then provided Miss I with a loan of £1,800.00 in September 2020. This loan had a more modest APR of 493.6% and a 24-month term. This all meant the total amount repayable of £7,113.60 was due to be repaid in 18 monthly instalments of £296.40.

One of our adjudicators looked at this complaint and thought that L2G hadn't done anything wrong when providing loan 1 but that it unfairly provided loan 2 as proportionate checks would have shown it was unaffordable. Miss I didn't disagree with our adjudicator. But L2G did and asked for an ombudsman to review the complaint.

As the parties appear to be in agreement with the findings our adjudicator reached on loan 1, this decision is only considering whether L2G acted fairly and reasonably when agreeing to provide loan 2 to Miss I.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

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We've set out our general approach to complaints about unaffordable/irresponsible lending - including the key rules, guidance and good industry practice - on our website. And I've referred to this when deciding Miss I's complaint.

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 Miss I's complaint. These two questions are:

1. Did L2G complete reasonable and proportionate checks to satisfy itself that Miss I would be able to repay loan 2 in a sustainable way?
 - o If so, did it make a fair lending decision?
 - o If not, would those checks have shown that Miss I would've been able to do so?

2. Did L2G act unfairly or unreasonably in some other way?

Did L2G complete reasonable and proportionate checks to satisfy itself that Miss I would be able to repay loan 2 in a sustainable way?

L2G provided this loan while it was authorised and regulated by the Financial Conduct Authority (“FCA”). The rules and regulations in place required L2G to carry out a reasonable and proportionate assessment of Miss 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 L2G had to think about whether repaying the loan would cause significant adverse consequences *for Miss I*. In practice this meant that L2G had to ensure that making the payments to the loan wouldn’t cause Miss I undue difficulty or adverse consequences.

In other words, it wasn’t enough for L2G to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Miss 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 customer’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 customer is required to make payments for an extended period); and
- 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).

There may also be other factors which could influence how detailed a proportionate check should’ve been for a given loan application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances.

I’ve carefully thought about all of the relevant factors in this case.

Were L2G’s checks reasonable and proportionate?

L2G says that it carried out an income and expenditure assessment with Miss I prior to providing her with this loan. It also carried out a credit check. Miss I declared that she was earning around £1,600.00 a month and had expenditure of £560.00 a month. L2G checks suggested her income was broadly correct but her expenditure was closer to £1,120.00 based what it saw on her credit file. This left her with around £480 a month which was more than enough to cover the payments to this loan.

I've carefully considered what L2G has said. But the credit check it carried out showed Miss I had taken out a significant amount of short-term credit in the months leading up to this loan and she'd also missed payments on some of her other accounts. It's also worth noting that this wasn't Miss I first loan with L2G either.

All of this coupled with L2G not being confident in the income and expenditure information Miss I provided, such that it adjusted the figures and its adjustments not capturing all of Miss I's expenditure (for example, the payments attributed to Miss I's revolving credit commitments won't have been enough to see these balances repaid within a reasonable period of time) lead me to think that L2G needed to take steps to verify Miss I's actual monthly expenditure.

As I can't see that this L2G did do this, I don't think that the checks it carried out before providing Miss I with her loan were reasonable and proportionate.

Would reasonable and proportionate checks have indicated to L2G that Miss I would have been unable to repay this loan?

As reasonable and proportionate checks weren't carried out before this loan was provided, I can't say for sure what they would've shown. So I need to decide whether it is more likely than not that a proportionate check would have told L2G that Miss I would have been unable to sustainably repay this loan.

L2G was required to establish whether Miss I could make her loan repayments without experiencing significant adverse consequences – not just whether the loan payments were technically affordable on a strict pounds and pence calculation.

I've carefully considered the information provided. Having done so, it's clear Miss I's income was being used to meet commitments to existing short-term creditors. And her account was also overdrawn over her limit too. So I think that Miss I was always unlikely to be able to make the payments she was being asked to commit to without borrowing further or suffering significant adverse consequences.

Bearing all of this in mind, I'm satisfied that reasonable and proportionate checks would more likely than not have demonstrated that Miss I would not have been able to make the repayments to this loan without borrowing further and/or suffering undue difficulty. And, in these circumstances, I find that reasonable and proportionate checks would more likely than not have alerted L2G to the fact that Miss I was in no sort of position to make the payments on this loan without suffering significant adverse consequences.

Did L2G act unfairly or unreasonably towards Miss I in some other way?

I've carefully thought about everything provided. And having done so, I've not seen anything to suggest that L2G acted unfairly or unreasonably towards Miss I in some other way. So I don't think L2G acted unfairly or unreasonably towards Miss I in some other way.

Did Miss I lose out as a result of L2G unfairly providing her with loan 2?

As Miss I is being expected to pay a high amount of interest and charges on a loan that she shouldn't have been provided with, I'm satisfied that she lost out as a result of what L2G did wrong.

So I think that L2G needs to put things right.

Fair compensation – what L2G needs to do to put things right for Miss I

Having thought about everything, I think it would be fair and reasonable in all the circumstances of Miss I's complaint for L2G to put things right by:

- removing all interest, fees and charges applied to the loan from the outset. The payments Miss I made, to L2G and any debt purchaser, should be deducted from the new starting balance – the £1,800.00 originally lent. If Miss I has already repaid more than £1,800.00 then L2G should treat any extra as overpayments. And any overpayments should be refunded to Miss I;
- adding interest at 8% per year simple on any overpayments, if any, from the date they were made by Miss I to the date of settlement†

† HM Revenue & Customs requires L2G to take off tax from this interest. L2G must give Miss I a certificate showing how much tax it has taken off if she asks for one.

I'd also remind L2G of its obligation to exercise forbearance and due consideration if it intends to collect on an outstanding balance, should one remain after all adjustments have been made to the account (should it buy it back from any third-party debt purchaser), and it's the case that Miss I is experiencing financial difficulty.

My final decision

For the reasons I've explained, I'm upholding Miss I's complaint. Loans 2 Go Limited needs to put things right in the way set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss I to accept or reject my decision before 5 April 2022.

Jeshen Narayanan
Ombudsman