

The complaint

Miss B complains that Loans 2 Go Limited (Loans2Go) lent to her irresponsibly.

What happened

Using information from both parties, we know that Miss B was approved for one loan on 6 September 2019 for a capital sum of £1,500 repayable over 18 months at £342.83 each. Miss B received the capital in September 2019 and made no payments at all until 5 March 2020 when a large payment of £2,056.98 was paid. My understanding is that the loan remains outstanding.

Miss B has pointed out to Loans2Go and to the Financial Ombudsman Service that she had just taken a £5,000 loan in July 2019 and had taken a £4,000 loan in March 2019, was in deep in her overdraft and had credit cards close to, or at, their maximum limits. Miss B says that had Loans2Go carried out proper checks it would not have lent to her.

Loans2Go received Miss B's complaint in July 2021 and issued its final response to that complaint. It explained the procedures it had done before lending. It said that as Miss B had declared to it her income and it had carried out checks such as a credit search and an income check, and then used her declared expenditure it looked affordable to her. It did not consider it had lent irresponsibly and it offered as a good will gesture a 30% reduction on the interest due on the loan. Later, on 3 August 2021, Loans2Go, still without admitting liability, increased that offer to a 50% interest reduction.

One of our adjudicators considered the complaint and thought that the loan ought not to have been lent to Miss B. Our adjudicator's view was that using the figures for income, expenditure, and credit commitments about which Loans2Go knew, those would have left Miss B with too little left over each month after paying the Loans2Go loan.

Loans2Go did not agree. It said that

'Upon reviewing our calculations made, [Miss B] had a disposable income of £240.10 after considering the payment made to Loans2Go.'

'Looking at the customer's credit file there is no record of any arrears, defaults or CCJ's at the point of application, therefore, I am unable to agree the customers credit file shows she had been struggling.'

'CCJ' is a reference to County Court Judgments. The unresolved complaint was passed to me to decide.

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 the relevant rules, guidance, and good industry practice - on our website.

Taking into account the relevant rules, guidance and good industry practice, what I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are whether Loans2Go completed reasonable and proportionate checks to satisfy itself that Miss B would be able to repay in a sustainable way? And, if not, would those checks have shown that Miss B would've been able to do so?

If I determine that Loans2Go did not act fairly and reasonably in its dealings with Miss B and that she has lost out as a result, I will go on to consider what is fair compensation.

The rules and regulations in place required Loans2Go to carry out a reasonable and proportionate assessment of Miss B'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 Loans2Go had to think about whether repaying the loan would be sustainable and/or cause significant adverse consequences for Miss B. In practice this meant that Loans2Go had to ensure that making the payments to the loan wouldn't cause Miss B undue difficulty or significant adverse consequences.

In other words, it wasn't enough for Loans2Go to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Miss B. 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 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.

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 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 the arguments, evidence and information provided in this context and what this all means for Miss B's complaint.

Miss B was a new customer to Loans2Go but as the loan was for 18 months and required substantial monthly repayments of over £340, I'd expect Loans2Go to have carried out a comprehensive check of Miss B's financial situation before lending. It may have done checks but a large part of the responsibility is ensuring that the data is read correctly.

My first concern is that Loans2Go had a record that she was self-employed and had been for some years. Miss B had declared that she earned around £2,400 a month and the search Loans2Go did to verify that income led it to think she had a regular income of around £1,831.

Immediately there were two elements requiring further research before proceeding in my view – the self-employment and the figures.

One set of records I've got from Loans2Go suggests to me that it used the £2,400 a month as Miss B's income in September 2019 and appears not to have checked about Miss B's self-employment. Usually I'd expect some confirmation of drawings and as these can fluctuate for a self-employed individual then that, in my view, would have been an important element. I don't think it did that.

Loans2Go seemed to be saying in its final response letter that it used the lower figure of £1,831, and it added a 10% margin figure to Miss B's declared expenditure. And so that left her with enough.

Our adjudicator carried out the calculations using the lower income figure and did not think Miss B had enough. I have checked with Miss B that her income figure were drawings of £1,800 a month.

Using the information Loans2Go used then it seems that her expenditure was around £1,248 and this does appear to include the repayments for the two larger earlier loans Miss B has mentioned. These loans and the repayments for them appeared on the credit search Loans2Go carried out before lending. It said it added a 10% 'buffer' and so that would have taken the expenditure figure to around £1,372. The repayments for the Loans2Go loan were around £342 each month which means Miss B's total expenditure on its own calculations comes to £1,714. And that leaves Miss B £86 in a month on Miss B's drawings figure of £1,800 and it is £117 on the £1,831 Loans2Go said it verified as her minimum income figure.

Either way I think that for an 18 month period that is too narrow a margin, even allowing for its own 10% margin. And I say that because Loans2Go was aware of the other credit commitments which were not low and for lengthy periods as well as this new loan it was approving for her.

And the issue with drawings from self-employment is that these can vary and fluctuate and so all it would have taken was for a relatively small fluctuation for Miss B to be unable to afford the loan.

And another element is just what Miss B has said – that she had taken £9,000 in credit in the few months before applying to it for a £1,500 loan and so I think that ought to have acted as an alert to Loans2Go to determine exactly why Miss B needed additional credit a month after the £5,000 loan taken with another lender in July 2019.

All in all, I think that the loan was borderline affordable and for an 18 month loan with reliance on self-employed drawings, this was too close and not sustainable. I uphold Miss B's complaint.

Putting things right

Miss B has had the capital payment in respect of the loan, so it's fair that she should repay this. So far as the loan is concerned, I think Loans2Go should:

- remove all interest, fees and charges applied to the loan; and
- treat any payments made by Miss B as payments towards the capital amount of £1,500; and
- if Miss B has paid more than the capital, refund any overpayments to her with 8%* simple interest from the date they were paid to the date of settlement; and if the

payments Miss B has made so far does not cover the £1,500 capital, then Loans2Go is reminded to approach the debt in a sympathetic manner; and

- remove any adverse information about the loan from Miss B's credit file.

*HM Revenue & Customs requires Loans2Go to deduct tax from this interest. It should give Miss B a certificate showing how much tax it's deducted if she asks for one.

My final decision

My final decision is that I uphold Miss B's complaint and I direct that Loans2Go Limited does as I have set out in the '*putting things right*' section above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 10 May 2022.

Rachael Williams
Ombudsman