

The complaint

Mr T has complained that Loans 2 Go Limited ("L2G") was irresponsible to have agreed credit for him.

What happened

L2G provided Mr T with a loan of £500 in May 2019. The total amount owed of £2,057, including interest and charges, was to be repaid in 78 weekly instalments of £26 or approximately £110 a month (figures rounded).

This was a 'log book' loan, in other words it was granted on the basis that Mr T provided L2G with a bill of sale for his car. This meant that if Mr T didn't make his loan repayments L2G could potentially recoup its losses through the sale of the vehicle.

It seems Mr T missed payments and had payments by card declined from the outset. He fell into arrears and a default notice was sent to him in November 2019, six months into his 18 month term. I understand that the loan wasn't fully repaid and L2G sold the debt to another company in July 2020.

Mr T says that L2G was irresponsible to lend to him because the loan was unaffordable given his existing level of borrowing. He's also unhappy about the amount of interest L2G charged.

One of our investigators looked into Mr T's complaint and recommended that it be upheld. They found that L2G had been irresponsible when it agreed to lend to Mr T because a proportionate check on his circumstances prior to lending would have shown the loan to be unaffordable.

L2G didn't accept this recommendation. It said that Mr T was up to date with his active borrowings which shows he wasn't in financial difficulty when he applied for this loan and that he could afford the repayment on all his credit commitments. L2G says its checks were proportionate and it wasn't irresponsible to lend on the basis of the information it had. The lender asked for the complaint to come to an ombudsman to review and resolve.

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.

L2G will be aware of the relevant regulations so I will briefly summarise. L2G needed to check that Mr T could afford to meet his repayments out of his usual means without having to borrow further, without missing any of his existing obligations and without experiencing significant adverse impacts. This meant that L2G was required to take reasonable steps to estimate Mr T's income and (non-discretionary) expenditure, and to estimate any reductions in income where it was reasonably foreseeable that a reduction was likely. L2G also needed to have regard to any information of which it was aware at the time that might have indicated

that Mr T was in, had recently experienced *or was likely to experience*, financial difficulties (see CONC 5.2A.22G-1).

The overarching requirement here was that L2G needed to pay due regard to Mr T's interests and treat him fairly. CONC 2.2.2G-1 gave an example of contravening this requirement as 'targeting customers with regulated credit agreements which are unsuitable for them by virtue of their indebtedness, poor credit history, age, health, disability or any other reason.'

With this in mind, my main considerations are did L2G complete reasonable and proportionate checks when assessing Mr T's application to satisfy itself that he would be able to make his repayments without experiencing adverse consequences? If not, what would reasonable and proportionate checks have shown and, ultimately, did L2G make a fair lending decision?

Let me start with what Mr T has said about interest levels - Mr T feels the amount of interest he was charged for this loan was too high. I've seen a copy of the credit agreement which sets out the total cost of the loan, the associated interest and charges and the weekly repayment amount. I understand Mr T made some repayments in line with these figures and I think if he wasn't expecting these charges he might have raised a query or a complaint about them at the time. However, I haven't made any finding about whether or not it was right of L2G to charge what it did because I've come to the conclusion that L2G was irresponsible to lend to Mr T for other reasons. And in order to put things right for Mr T, as I will explain in detail later on, L2G should refund any interest and charges he's paid. I appreciate that this will be disappointing for L2G and I hope the following clearly explains why I've come to this conclusion.

L2G provided this Service with the information it relied on in making its lending decision. This included Mr T's application form and a copy of his credit file. Mr T told L2G that his monthly income was £1,500 but didn't provide details of his expenditure.

L2G said in its final response letter to Mr T that it verified his income using an online tool and relied on him having a minimum monthly income of £1,260. L2G also said that although Mr T hadn't declared any expenditure in his application it estimated his monthly expenditure to be £1,004 following an extensive review of his application and his credit file. It concluded that Mr T had enough money to meet his loan repayments, and enough to cover any unexpected fluctuations in his means.

Mr T would need to meet his repayments for 18 months and the consequences of not doing so were potentially serious in that he might lose his car. So I think asking Mr T about his income and expenditure and looking to independently verify this information seems reasonable. However, I understand Mr T didn't provide any proof of his income or give any figures for his expenditure, and L2G hasn't explained how it arrived at its estimates. Furthermore, I think Mr T's existing credit commitments were significant. The credit report L2G provided showed Mr T was paying £440 a month on debt. Agreeing this loan increased this figure to approximately £550 a month - over a third of his declared income.

Altogether, considering the type of credit offered, the inconsistencies between what Mr T had declared and its estimates, and what it knew about his existing debt levels, I think L2G ought to have taken further steps to check that Mr T would be able to meet his repayments without experiencing financial difficulties. And so I don't think its checks were proportionate on this occasion.

Mr T has provided bank statements from the time. I am not suggesting this is the information L2G ought to have gathered but I think it's a reasonably proxy for what it was likely to have

found out through proportionate checks. The information shows that Mr T's income fluctuated around £1,500. It confirms the existing credit commitments shown on his credit file and shows he had other debts which weren't captured on this report. For example, Mr T was borrowing from two short term lenders and a high cost running account lender at the time, and he repaid £350 to these lenders in May 2019. Agreeing further credit for Mr T could potentially result in him spending two thirds of his income on repaying debt, a situation which more likely than not would cause him problems meeting his repayments.

As mentioned, Mr T had problems meeting his repayments from the start. The customer contact notes record that he told L2G he lost a regular income for a time when he changed jobs in July 2019. However, his repayment problems continued and his arrears mounted. I think his financial difficulties were foreseeable, and I think L2G was irresponsible when it agreed to lend to him.

Putting things right

Mr T had the benefit of the money he borrowed so I think it's right that he repays this. However, I don't think he should be liable for any interest or charges associated with the loan as I've found it was unfairly given. I've set out below what L2G needs to do to do now, which may include buying the debt back, or liaising with the current debt owner.

In order to put things right for Mr T, L2G needs to:

- a) Refund to Mr T all payments he made above the amount of £500 he borrowed. To be clear this includes any interest or charges associated with the credit or its collection including any payments he may have made to the company who bought the debt from L2G; and
- b) Add 8% simple interest per annum to these overpayments from the date they were paid to the date of refund; and
- c) Waive any outstanding balance and consider the debt settled; and
- d) Remove any adverse information about this loan from Mr T's credit file; and
- e) Revoke the Bill of Sale for Mr T's car if this is still in place and return any relevant documents to him if it hasn't already done so.

*HM Revenue & Customs requires L2G to deduct tax from this interest. It should give Mr T a certificate showing how much tax it has deducted, if he asks for one.

My final decision

For the reasons set out above, I'm upholding Mr T's complaint about Loans 2 Go Limited and it should put things right as I've outlined.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 1 April 2022.

Michelle Boundy
Ombudsman