DRN-3299251

The complaint

Mrs P has complained that Loans 2 Go Limited was irresponsible in lending to her.

What happened

Loans 2 Go provided Mrs P with the following loans:

	Date taken	Amount	Term	Monthly repayment	Amount received	Loan status
Loan 1	01/07/19	£600	18 months	£137.13	£2,468.34	Settled 09/12/19 when Loan 2 taken out
Loan 2	09/12/19	£970	18 months	£221.70	£3,990.60	Settled 29/05/20
Loan 3	27/09/20	£1000	18 months	£228.56	£4,114.08	Active

Mrs P complained that Loans 2 Go hadn't carried out proper checks before lending to her.

Loans 2 Go looked into her complaint. It said it had carried out proper checks and it thought the loans were affordable.

Mrs P referred her complaint to us. Our adjudicator upheld the complaint in part. She didn't think Loans 2 Go had carried out proper checks in respect of Loans 2 and 3. And if Loans 2 Go had done it would've seen that Mrs P couldn't afford the loan repayments and so it shouldn't have lent to her.

As Loans 2 Go didn't agree, the matter has been referred 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 Mrs P's complaint. These two questions are:

1. Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that

Mrs P would be able to repay the loans without experiencing significant adverse consequences?

- If so, did it make a fair lending decision?
- If not, would those checks have shown that Mrs P would've been able to do so?

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

The rules and regulations in place required Loans 2 Go to carry out a reasonable and proportionate assessment of Mrs P'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 Loans 2 Go had to think about whether repaying the loan would be sustainable. In practice this meant that the business had to ensure that making the repayments on the loan wouldn't cause Mrs P undue difficulty or significant adverse consequences. That means she should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment she had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on her financial situation.

In other words, it wasn't enough for Loans 2 Go to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mrs P**.** 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 Mrs P's complaint.

Loan 1

When Mrs P applied for the loan, she told Loans 2 Go that her monthly income was £1,700 and her expenses were £311. Loans 2 Go said it carried out a credit search and verified her income using industry standard checks. It found that Mrs P's monthly income was a minimum of £1,012.31 and it calculated her expenditure was £705.08. That meant Mrs P would have disposable income of £170.10 after making her new loan repayment to Loans 2 Go.

The credit search revealed Mrs P owed a total of £285. She had two historic defaults. But that's not unusual for someone applying for this sort of credit. Overall, I think Loans 2 Go's checks were proportionate given the size and term of the loan and the value of the repayments in relation to Mrs P's monthly income. And these checks suggested that the loan repayments were affordable.

Loan 2
I think Loans 2 Go should have been concerned that Mrs P was applying to borrow more only five months after she'd taken out Loan 1. It was also aware that she had already been struggling to keep up with some repayments and with this new loan her repayments would be higher again.

Its next credit search showed that her borrowing had increased in that time from £295 to £5,813. So her debt had gone from being around a third of her monthly income to over five times it. She'd taken out another loan just after Loan 1 on which she owed £1,579. She'd later taken out two more loans. And she was close to her overdraft limit of £2,150. This pattern can often indicate that someone has become reliant on new borrowing to repay their existing loans.

As Loans 2 Go should have been concerned about her need to borrow again so soon, I think it should have carried out further checks to assure itself that Mrs P would be able to repay the loan in a sustainable way over the 18 month term. Those checks could have included obtaining a copy of her bank statements. I'm not suggesting here that these are the checks that Loans 2 Go should necessarily have done. But I think looking at these would have given a good indication of the state of Mrs P's financial situation at the relevant time. As I can't see that this was done, I don't think that the checks carried out before providing Mrs P with this loan were reasonable and proportionate.

For me to be able to find that Loans 2 Go shouldn't have given this loan, I have to be satisfied that by not carrying out proportionate checks Loans 2 Go has caused Mrs P a loss. In fact her bank statements for the two month period before she took out Loan 2 show that she spent more than her disposable income on gambling transactions. If Loans 2 Go had carried out proportionate checks, I think it's more likely than not that it would have uncovered this and then not lent to Mrs P. So I'm not persuaded that Loans 2 Go acted fairly in lending to Mrs P as it was likely that giving her more credit would simply make her situation worse.

Loan 3
This was now the third time in 14 months that Mrs P was applying for a loan from Loans 2 Go. According to its checks Mrs P's monthly income had dropped sharply to a minimum of £996.71 and surprisingly the credit search showed that the total amount she owed had gone down to £233 within a relatively short time. Loans 2 Go would have been aware that a lender's credit checks might not reveal the full extent of an applicant's credit commitments.

It is finely balanced but overall I think Loans 2 Go needed to do further checks to gain a thorough understanding of Mrs P's financial position - for example by requesting bank statements. Had it done so, I think Loans 2 Go would have again realised that Mrs P was spending a large amount on gambling transactions. Had it known this, I don't think Loans 2 Go would have lent to Mrs P as it was likely that further lending would make her situation worse.

I’ve also thought about whether Loans 2 Go acted unfairly in some other way and I haven’t seen any evidence that it did.

Putting things right

As I have concluded Loans 2 Go shouldn’t have provided Loans 2 and 3, it should:

- refund all interest, fees and charges applied to those loans;
- pay interest* of 8% simple a year on any refunded interest, fees and charges from the date they were paid (if they were) to the date of settlement; and
- remove any negative information about Loans 2 and 3 from Mrs P’s credit file.

*HM Revenue & Customs requires Loans 2 Go to take off tax from this interest. Loans 2 Go must give Mrs P a certificate showing how much tax it’s taken off if she asks for one.

My final decision

For the reasons given above, I uphold Mrs P’s complaint and require Loans 2 Go Limited to put things right for Mrs P as set out above.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs P to accept or reject my decision before 19 April 2022.

Elizabeth Grant
Ombudsman