

The complaint

Mr B complained that Loans 2 Go Limited failed to do sufficient checks and lent to him irresponsibly when he was already struggling to pay other lenders and provided a loan that was unaffordable.

What happened

Mr B took out a loan with Loans 2 Go as follows:

Date taken	Loan amount	Term -	Monthly repayment	Total payable
5/12/19	£340	18 months	£77.71	£1,398.78

The loan purpose wasn't recorded on the application.

When Mr B complained to Loans 2 Go it didn't uphold his complaint so he brought his 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.

Mr B accepted our adjudicator's view. Loans 2 Go disagreed. It mainly said there were no active county court judgements or defaults recorded on Mr B's credit file and it didn't penalise customers for using an agreed credit facility. As well as this, Mr B had high available balances on credit facilities and he hadn't been at or over the credit limit on the majority of his credit commitments.

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 Mr B about his income and expenses – including what he spent on his credit commitments. It also did its own credit check to understand Mr B's credit history. Loans 2 Go verified that Mr B's minimum monthly pay was around £4,642. After reviewing the information it had gathered, Loans 2 Go boosted the monthly expenditure figure that Mr B had declared and calculated that he would need to spend approximately £4,037 in total each month. It also took into account nationally available statistics when thinking about Mr B's likely spending and allowed for a 'buffer' of 10% of his verified expenditure to account for any fluctuations in his monthly income or expenditure. Based on this, Loans 2 Go said Mr B 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 Mr B 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 Mr B had declared was significantly at odds with what Loans 2 Go saw on its credit checks showing Mr B's credit history. And I don't think Loans 2 Go thought carefully enough about what the information it had gathered showed about Mr B's overall financial situation and the likelihood of him being able to pay its loan in a sustainable manner.

I say this because Loans 2 Go could see from its credit checks that whilst Mr B was within his credit limit on one credit card account he also had a credit card that was over its £2,000 limit with a balance of £2040. And although that might reasonably have been put down to a money management issue rather than a sign of money problems, I think there was other concerning information shown. Overall, he was using 94% of the available credit on his credit cards. Mr B had also taken out 5 payday/unsecured loans over the course of the year – 4 within the previous six months. The credit search also showed that Mr B had a history of taking short term loans, sometimes more than one a month. The reliance on this type of credit is an indication that Mr B was not managing his money well and I think Loans 2 Go should have recognised the hallmarks of potential financial difficulty.

I've taken carefully 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 doesn't seem to have known how Mr B intended to use the money.

I think our adjudicator was right to say that all the indications were that Mr B wasn't managing his money well and he was already struggling financially. To my mind, it should've been apparent that Mr B probably didn't have the amount of disposable income that Loans 2 Go calculated given his heavy reliance on expensive credit. All the signs were that his finances were, in reality, under significant stress and his debt was already unmanageable. I don't think Loans 2 Go was reasonably able to be satisfied in these circumstances that Mr B 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 Mr B needed to pay a significant portion of his income towards credit – more than half by my reckoning. And in my opinion, as a responsible lender Loans 2 Go should've realised that Mr B 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 Mr B. 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 Mr B to repay the capital amount that he borrowed because he had the benefit of that lending - but he shouldn't repay more than this.

If Loans 2 Go has sold any outstanding debt it should buy this back if able to do so and then take the following steps. Otherwise, Loans 2 Go should liaise with the new debt owner to achieve the results outlined below and do the following:

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

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 30 March 2022.

Susan Webb
Ombudsman