DRN-3347543

The complaint

Mr C has complained that Loans 2 Go Limited was irresponsible in lending to him.

What happened

In August 2020 Mr C took out a loan with Loans 2 Go for £1,900. The loan was taken out over 24 months with an APR of 493.6% and his monthly repayments were £312.87 making the total repayable £7,508.88. Mr C failed to keep up with the first repayments. The loan was repaid two months later.

Mr C complained that Loans 2 Go hadn't properly checked he could afford the loan.

Loans 2 Go looked into his complaint and didn't uphold it. It said the checks had been properly carried out and it thought the loan was sustainable. Mr C referred his complaint to us. He was also unhappy about the high interest rate.

I issued a provisional decision explaining why I was minded to uphold Mr C's complaint. An extract from my provisional findings is set out below:

"*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.*

Taking into account the relevant rules, guidance and good industry practice, I think the overarching questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- *Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Mr C would be able to repay the loan in a sustainable way?*
- *If not, would those checks have shown that Mr C would have been able to do so?*
- *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 Mr C'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 Mr C undue difficulty or significant adverse consequences. That means he 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 he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his 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 Mr C. 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 Mr C's complaint.

Loans 2 Go asked Mr C about his income and expenses. Mr C told it that his net monthly income was £1,389. It verified that figure using a standard industry tool, which looks to see whether the disclosed income is consistent with the turnover of the consumer's bank accounts. The check came back showing it was very close to that (£1,380). Mr C also said his expenses (including his other credit commitments of £50) were £510 a month.

Loans 2 Go carried out a credit search. That showed Mr C owed £6,080 in total spread across two unsecured loans, two mail order accounts and two credit cards. The search didn't show any recent defaults but there were two defaults from 2015 and one from 2014. He'd opened 8 new credit accounts in the last 12 months, including two loan accounts three months previously with balances of £2,876 and £893 respectively. I think Loans 2 Go should have queried why Mr C needed more credit within such a short time. Loans 2 Go would have been aware from the credit search that Mr C had greatly underestimated the amount of his credit commitments.

I think Loans 2 Go's checks were proportionate but it didn't react appropriately to the information it received. I say that because it calculated that Mr C's expenses were £915.91 a month. It then added a buffer of 10% to his verified expenditure to account for any fluctuations in his monthly income or expenditure. That would have left him with just £59.63 a month after making his new loan repayment to Loans 2 Go of £312.87. In addition his credit repayments exceeded 35% of his monthly income. I think there was a very foreseeable risk here that Mr C wouldn't have been able to meet his repayments over 24 months without difficulty. It wouldn't have taken very much unexpected or seasonal expense to leave Mr C in the position of having to borrow to meet his loan repayments. I think Mr C would have needed a larger disposable income for the loan to be sustainable.

So, on current evidence, I don't think Loans 2 Go made a fair lending decision here to provide the loan to him. This is a provisional decision and both parties have time to respond and send me additional evidence if they wish to.

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. I've thought about what Mr C has said about the high cost of the loan. I see there was a large amount of interest chargeable on the loan and I can appreciate that Mr C might now feel this was unfair. But I think it's fair to say that the loan agreement set out reasonably clearly both what the interest rate was and how much he would have to pay if the loan ran to term. Interest could be waived if he closed the loan and he received a discount for early settlement. Taking everything into account, I think Mr C was made aware he was taking a high cost loan on terms he seemed happy to agree to at the time. So, on current evidence, I can't fairly say that the high cost of this credit is a reason for me to award any additional redress."

Mr C accepted my provisional decision. Loans 2 Go said it had no further comments.

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.

As neither party objected to my provisional findings, I see no reason to change them and they now form part of this final decision.

Putting things right

To put things right, I think Loans 2 Go Limited should:

- refund all interest and charges Mr C paid on the loan;
- pay interest* of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement; and
- remove any negative information about the loan from Mr C's credit file.

*HM Revenue & Customs requires Loans 2 Go Limited to deduct tax from this interest. Loans 2 Go Limited must give Mr C a certificate showing how much tax it's deducted if he asks for one.

My final decision

I uphold this complaint and require Loans 2 Go Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 31 March 2022.

Elizabeth Grant
Ombudsman