DRN-3354398

The complaint

Mrs G complained that Loans 2 Go Limited lent to her irresponsibly and provided loans that were unaffordable.

What happened

Mrs G took out loans with Loans 2 Go as follows:

Loan	Date	Amount	Term	Monthly Repayment
1	20/07/2020	£250	18 months	£57.14
2	25/01/2021	£400	18 months	£91.42

Mrs G brought her complaint to us when she wasn't able to resolve it with Loans 2 Go. In brief summary, Mrs G felt that Loans 2 Go didn't complete sufficient checks before lending to her and so she struggled to make the repayments..

Our investigator upheld Mrs G's complaint about both loans and set out directions indicating what she thought Loans 2 Go should do to put things right.

Loans 2 Go disagreed with our investigator's view. It mainly said that it had been entitled to rely on the information it had gathered and it didn't agree that it had acted irresponsibly towards Mrs G in any way. Loans 2 Go also said that when it compared credit files for both loans it saw that Mrs G's credit report had significantly improved by loan 2 so it felt that providing loan 1 had assisted Mrs G to settle other accounts.

The complaint came to me to decide. I issued a provisional decision.

What I said in my provisional decision

Here are some of the main things I said.

"Before agreeing to lend, lenders must work out if a borrower can 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 lender must take reasonable steps to satisfy itself that the borrower can sustainably repay the loan – in other words, without needing to borrow elsewhere.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. For example, when thinking about what a borrower has left to spend on a new loan after paying other expenses, as well as taking into account the loan amount, the cost of the repayments and how long the loan is for, a proportionate check might mean a lender should also 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 more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way. I've kept all these things in mind and I've thought carefully about the information Loans 2 Go relied on when it decided to lend to Mrs G.

Loan 1

Loans 2 Go asked Mrs G about her income and expenses and carried out credit checks. Loans 2 Go used an online income checker to verify that Mrs G's minimum monthly pay was around £1,165 – broadly in line with the figure Mrs G had declared. Relying on this figure for her net monthly income and taking into account what Mrs G had said about her monthly expenditure, and what its credit checks showed, it calculated that Mrs G's monthly expenditure was approximately £987. It also allowed for a 'buffer' of 10% of her verified expenditure to account for any fluctuations in Mrs G's monthly income or expenditure.

Using this approach, Loans 2 Go calculated that Mrs G should've been able to afford the monthly repayment on this loan – and that seems a broadly reasonable conclusion to me based on these figures.

I think it's fair for Loans 2 Go to say that what could be seen on the credit checks it acquired wasn't especially worrying. It appeared that Mrs G had taken out two loans already during the previous year – including a bank loan around three months earlier. But she had also paid off a bank loan just a few months before that and her payments on this new bank loan were up to date. She had around £500 credit available on a mail order account and was maintaining that account well. She seemed to be comfortably within her agreed overdraft limit on a current account and this too showed payments had been kept up to date throughout the two year reporting period covered on the credit report. None of Mrs G's other active accounts showed any payment problems in the period running up to her applying for loan 1.

There was a county court judgement shown on Mrs G's credit file but I think it's fair to say that Loans 2 Go was entitled to think this didn't provide much useful information about Mrs G's present financial situation. I say this because the entry on her credit file dated back almost 6 years – in a few months' time it wouldn't any longer even appear on her credit file and there was no real incentive for Mrs G to make repayments to this debt now. So, whilst it was clear that Mrs G had evident money problems in the past, I think Loans 2 Go was reasonably entitled to take a view this didn't necessarily mean that she was still in serious financial difficulty.

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 overall for Loans 2 Go to make a fair decision to lend – or whether, as our investigator suggested, that it should have prompted Loans 2 Go to do more in-depth checks.

Loans 2 Go had increased the amount Mrs G said she was spending each month after doing its own credit checks. So I've taken into account Loans 2 Go was aware that some information from Mrs G didn't look like it had been entirely accurate – and potentially this called into question other information she had provided about her spending and her financial situation generally. But set against this was the fact that the credit checks Loans 2 Go obtained showed admittedly limited information but, significantly, nothing unduly concerning about her present financial situation. I think Loans 2 Go could see that Mrs G had a history of taking out and repaying short-term and unsecured loans – on the face of it, that raised a question about why Mrs G needed to do that and why she still needed this loan. It wasn't clear how she intended to use the money. But it isn't unusual for applicants for this type of high cost loan to have a credit history showing other borrowing or even an impaired credit record – and these things wouldn't necessarily be reasons to prompt a responsible lender to decline a loan application or think more in-depth checking was needed.

On balance, bearing in mind this was Mrs G's first loan application to Loans 2 Go, she was applying for a relatively small loan amount and given the 18 months term and the relatively low level of monthly repayments compared to her take home pay, I think the checks Loans 2 Go did for loan 1 were, broadly speaking, proportionate in the circumstances.

Thinking about loan 1 overall, I haven't seen enough to make me think that it was unreasonable for Loans 2 Go to conclude that the loan it provided looked like it ought to be affordable for Mrs G or that there was enough other information to show that loan 1 would be unlikely to be sustainably affordable for her over the loan term. So, for these reasons, I don't plan to uphold Mrs G's complaint about loan 1.

Loan 2

Loans 2 Go carried out the same affordability and information gathering process as it had done for loan 1 – it recorded a drop in Mrs G's verified income but it also saw a fall in her overall expenditure figures. After taking into account its credit checks Loans 2 Go thought that the loan still looked affordable for Mrs G. But I agree with our investigator about this loan and I don't think Loans 2 Go acted fairly when Mrs G applied for loan 2. I'll explain my reasons.

I think the information Loans 2 Go saw in its credit checks should've prompted Loans 2 Go, as a responsible lender, to enquire more closely into Mrs G's finances. I say this because she appeared to be continuing a borrowing pattern that was evident from looking at the credit checks Loans 2 Go did which reflected a history of taking out expensive loans. Mrs G had by now taken out five new credit accounts within the previous 12 months (compared to just two during the preceding 12 months when she applied for loan 1). I don't think this suggested any overall improvement in her finances as Loans 2 Go has suggested. Mrs G hadn't said why she needed the loan and it wasn't clear why she would still need to take out this sort of expensive loan or why she appeared to be a habitual user of high cost credit.

And there were other signs that were concerning. Loans 2 Go could've seen that she also had arrears on a utility account and I think Loans 2 Go should have recognised that not being able to pay essential household bills is potentially a hallmark of someone in serious financial difficulty. I can't see from the notes it sent me that this was either questioned or explained. It was also evident that Mrs G was making full use of her overdraft and up to the account limit on her current account.

For these reasons I think Loans 2 Go needed to do further checks to ensure it had a fuller understanding of Mrs G's finances before it could be reassured that loan 2 would be sustainably affordable. I don't think the checks it carried out before agreeing to lend on this occasion were proportionate in these circumstances. So I've looked at what I think a proportionate check might've shown had Loans 2 Go looked more closely into Mrs G's finances at the time.

Mrs G has sent me her bank statements covering the period and this shows information that I think Loans 2 Go is likely to have discovered for itself if it had done what I consider would have been a proportionate check when Mrs G applied for loan 2.

I think Loans 2 Go would have seen that Mrs G was relying on multiple loans from short-term loan and high-cost credit providers – by my estimate, she borrowed around £600 during December 2020 and she was making repayments to at least four other providers of expensive short-term loans and high cost credit. Despite this injection of cash into her bank account, Mrs G was regularly incurring daily overdraft interest charges and she still ended the month almost £150 overdrawn.

I think this shows that, in reality, Mrs G's finances were under significant pressure and there were clear signs that not only was she making no real inroads into her existing debt she was taking on new credit commitments – all hallmarks that Mrs G was in serious financial difficulties. I think Loans 2 Go should've realised that Mrs G had become reliant on expensive forms of borrowing and recognised the signs that she was dependent on obtaining new credit in order to fund her day to day costs and meet her other credit commitments.

To sum up, I think Loans 2 Go should've seen enough, had it done a proportionate check, to have concluded that loan 2 *wasn't* likely to be sustainably affordable for Mrs G and so it *shouldn't* have provided it. So for these reasons, I'm planning on upholding Mrs G's complaint about loan 2."

What the parties said in response to my provisional decision

Both parties have confirmed safe receipt of my provisional decision and told me they have nothing further to add.

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 approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding this complaint. I'd like to thank both parties for all the information that has been provided about this matter. Given that I've not received any further evidence or comment that changes my mind about this complaint, I confirm the conclusions I reached in my provisional decision.

Putting things right

Our adjudicator didn't recommend that Loans 2 Go should pay any additional redress. Mrs G hasn't commented on that and I haven't seen anything which makes me think Loans 2 Go acted unfairly towards Mrs G in any other way. So I'm not awarding any additional redress.

I think it is fair and reasonable for Mrs G to repay the capital amount that she borrowed, because she had the benefit of that lending. She has however had to pay extra for lending that shouldn't have been provided to her.

Loans 2 Go has told me that both these loans have been repaid already. So, Loans 2 Go should do the following:

- add up the total amount of money Mrs G received as a result of having been given loan 2. The repayments Mrs G made should be deducted from this amount.

- If this results in Mrs G having paid more than she 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).

- Whilst it's fair that Mrs G's credit file is an accurate reflection of her financial history, it's unfair that she should be disadvantaged by any adverse information recorded about a loan that was unfairly provided. So Loans 2 Go should remove any negative information recorded on Mrs G's credit file regarding loan 2.

*HM Revenue & Customs requires Loans 2 Go to deduct tax from this interest. Loans 2 Go should give Mrs G a certificate showing how much tax has been deducted if she asks for one.

My final decision

I partly uphold this complaint and direct Loans 2 Go Limited to take the steps set out above to put things right for Mrs G.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs G to accept or reject my decision before 4 April 2022.

Susan Webb
Ombudsman