

The complaint

Mrs A complained that 1Plus1 Loans Limited trading as 1Plus1 Loans lent to her irresponsibly and provided her with an unaffordable loan.

What happened

Mrs A was given a loan by 1Plus1 as follows:

Date taken	Loan status	Number of monthly instalments	Loan amount	Monthly repayment*	Total payable
10 October 2018	Paid	24	£2,750	£168.44	£4,042.56

One of our investigators reviewed Mrs A's complaint. She didn't think that 1Plus1 should've provided the loan and so she recommended upholding the complaint and set out the steps 1Plus1 needed to take to put things right.

1Plus1 disagreed with our investigator's view. 1Plus1 didn't feel that our investigator had properly explained parts of her view. In summary, it mainly said that it worked out that Mrs A should've had around £816 surplus each month which showed this loan was affordable for Mrs A.

As the complaint hasn't been resolved, it comes to me to decide.

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 have also taken into consideration regulatory rules and good industry practice at the time. I'd like to reassure 1Plus1 that I've looked at the complaint afresh – and I've independently reached the same conclusions as our investigator and I am upholding Mrs A's complaint for broadly the same reasons. I'll explain in more detail why I say this.

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.

1Plus1 asked Mrs A about her income and expenses, it carried out credit checks and did an electronic check to verify her pay. It also took into account statistical information when comparing Mrs A's declared expenditure against national data showing typical spending for someone in the same situation.

1Plus1 recorded a figure of £1,500 net salary per month and understood that Mrs A also received around £500 or so additional income each month - although I think it's fair to say this included benefits that were paid based on her earnings and circumstances and specifically intended to help cover other costs – not repay additional debt.

After doing its own background checks and allowing for her declared monthly outgoings, including a £200 buffer for emergencies and enough to cover the existing credit commitments Mrs A told 1Plus1 she was still paying, 1Plus1 worked out that Mrs A should still have been left with around £816 spare cash. So this led 1Plus1 to conclude that the loan was affordable for Mrs A.

I've taken carefully into account everything 1Plus1 has said in response to our investigator's view about the way it assessed affordability. And I've thought carefully about what I think a responsible lender should have made of all the information it had gathered and in particular whether it was enough for 1Plus1 to make a fair decision to lend.

Our investigator thought 1Plus1 needed to do further checks before agreeing this loan. 1Plus1 disagrees on this point. But I think it's fair to say that 1Plus1 recognised that it had information which suggested that Mrs A had some serious money management problems and so more in-depth checks would've been reasonable and proportionate. And I've carefully listened to the call recording when 1Plus1 asked Mrs A about defaults it was aware of and arrears on payday loans it had seen. It also enquired about a large loan she had taken out within the last three months and a home credit account she had recently taken out. It queried an account it saw was in a debt management plan. I think 1Plus1 was right to identify all of these things as indications of potential financial difficulty. But it hasn't shown me that it went far enough in its checks.

Whilst 1Plus1 was entitled to expect that Mrs A was confident she was correct about the information she provided, it also had a responsibility to carry out sufficient checks to be able to satisfy itself that it was fair to lend and that the loan would be sustainably affordable for her. It seems to me that 1Plus1 accepted Mrs A's assertions that all her problematic accounts had already been paid and there were reporting errors and incomplete information shown on the credit checks 1Plus1 had obtained – despite the fact that the information 1Plus1 saw appeared to contradict what Mrs A had said. I think it was also apparent that Mrs A had a long established track record of using expensive credit and this was significantly at odds with the affordability assessment it had done suggesting she had more than £800 spare cash each month.

Keeping in mind that Mrs A had said her main household costs were mostly paid by another member of the household, I think 1Plus1 should have realised that there was no obvious explanation for Mrs A's problematic debt. Or why someone with the amount of spare cash it thought Mrs A should have had apparently still needed to rely to this extent on obtaining expensive credit.

I don't think 1Plus1 was reasonably able to say that the information it gathered supported its lending decision and I can't fairly say that 1Plus1 carried out what I consider would've been proportionate checks in these circumstances. This means I need to consider what it's likely a proportionate check would've shown had this been done.

I've looked at a credit report provided by Mrs A which I think gives a useful guide to understanding her overall financial situation at the time. And I think, if 1Plus1 had done a proportionate check before lending, it would've seen nothing to reassure it that this loan was going to be sustainably affordable for Mrs A.

I think the overall picture was of someone persistently reliant on expensive credit and already unable to afford the cost of her debt without borrowing to fund repayments. Her payday loans hadn't been repaid and she had taken out other loans that 1Plus1 was unaware of, including a large loan for £7,750 which was going to cost her £306 per month just a week or so before applying for this loan.

Together with the monthly repayments for this loan and the other outstanding credit commitments that Mrs A had signed up to, this would mean that Mrs A was committed to paying such a large proportion of her monthly income on servicing her debt that it was unlikely she would be able to pay for this loan in a sustainable way – in other words, without borrowing further.

And that's borne out by what I've seen on the credit report provided. The fact that Mrs A made the loan repayments without any evident difficulty doesn't mean that she was able to do so sustainably. She continued to take out expensive credit – effectively borrowing from one lender to pay others – which I think would've been a reasonably foreseeable consequence of this lending had 1Plus1 carried out proportionate checks before agreeing to provide this loan.

In coming to my decision I've thought carefully about everything 1Plus1 has said, including its detailed responses to our investigator's view. I acknowledge that 1Plus1 has taken a different view to me. I have concentrated on what I consider to be the main points that affect the outcome of this complaint and whilst I appreciate that my decision will be disappointing for 1Plus1, I hope that setting things out as I've done helps to explain how I've reached my conclusions.

As Mrs A has been further indebted with a high amount of interest and charges on a loan that she shouldn't have been provided with, I'm satisfied that she has lost out as a result of what 1Plus1 did wrong. So, 1Plus1 needs to put things right.

Putting things right

Our investigator didn't recommend that 1Plus1 should pay any additional redress. Mrs A hasn't commented on that and I haven't seen anything which makes me think 1Plus1 acted unfairly towards Mrs A in any other way. So I'm not awarding any additional redress. And I think it is fair and reasonable for Mrs A to repay the capital amount that she borrowed, because she had the benefit of that lending. But she has been charged extra for a loan that should not have been provided to her. In line with this Service's approach, Mrs A shouldn't repay more than the capital amount she borrowed.

1Plus1 should do the following:

- add up the total amount of money Mrs A received as a result of having been given this loan. The repayments Mrs A made should be deducted from this amount.
- If this results in Mrs A 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).
- If any capital balance remains outstanding, then 1Plus1 should attempt to arrange an affordable/suitable payment plan with Mrs A.
- Whilst it's fair that Mrs A'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 1Plus1 should remove any negative information recorded on Mrs A's credit file regarding the loan.

*HM Revenue & Customs requires 1Plus1 to deduct tax from this interest. 1Plus1 should give Mrs A a certificate showing how much tax has been deducted if she asks for one.

My final decision

I uphold Mrs A's complaint and direct 1Plus1 Loans Limited trading as 1Plus1 Loans to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs A to accept or reject my decision before 27 April 2022.

Susan Webb
Ombudsman