

The complaint

Mr H, through a representative, says Loans 2 Go Limited lent to him irresponsibly.

What happened

Mr H took out two instalment loans from Loans 2 Go. A summary of his borrowing follows.

| loan | taken | repaid | value, £ | term in months | monthly repayment, £ | total repayable, £ |
|------|------------|------------|-------------|-------------------|----------------------------|-----------------------|
| 1 | 17/02/2019 | 05/09/2019 | 500 | 18 | 114.28 | 2,057.04 |
| 2 | 05/09/2019 | 13/11/2019 | 683.62 | 18 | 156.24 | 2,812.32 |

Mr H says the lender failed to carry out an effective affordability assessment and would not have lent to him had it done so.

The investigator upheld Mr H's complaint. She said the lender's checks showed Mr H's financial situation wasn't stable, and it was unlikely he would be able to sustainably repay either loan.

Loans 2 Go disagreed. It said Mr H's credit report was on the whole very positive and it showed that Mr H was able to manage his finances. There was nothing that led it to think further checks were needed.

It asked for an ombudsman to make a decision on the case and so the complaint was passed to me. I reached a different conclusion to the investigator and I planned to uphold the complaint in part, in relation to loan 2. So I issued a provisional decision - an extract follows and forms part of this final decision. I asked for both parties to comment or submit additional information by 15 March 2022.

Extract from my provisional decision

I can see Loans 2 Go asked for some information from Mr H before it approved the loans. It asked for his monthly income and expenditure. It completed income verification with a third party to check his minimum income. It adjusted his declared expenditure using national statistics to ensure it was reasonable. It added a buffer to allow for unplanned expenses. It then checked Mr H's credit file to understand his existing monthly credit commitments at the time of both applications and his credit history. I can't see it asked about the purpose of the loan 1, loan 2 was to purchase a car. From these checks combined Loans 2 Go concluded Mr H had sufficient disposable income to afford the loans. I think these checks were proportionate for loan 1, and that the lending decision was fair. But I think better checks were needed for loan 2, and these would have shown the loan was most likely not affordable for Mr H. I will explain my findings.

Loan 1

This was Mr H's first application to Loans 2 Go and the monthly repayments were less than 10% of his verified net income. His credit report showed he wasn't heavily indebted, and he was up-to-date on all his repayments. So given the term and value of the loan I don't think Loans 2 Go needed to carry out any more checks, and I think it was right to lend to Mr H. The investigator found that the credit report showed Mr H was reliant on short-term loans in the three months prior. But I can't see these loans on the credit check the lender completed. I can see they were evident on Mr H's full credit report that he provided to this service. Consumers often see different results to lenders due to timing issues and the fact not all lenders report to all the credit reference agencies. But in the circumstances of this loan I don't think it would have been proportionate for Loans 2 Go to have carried out more comprehensive checks. And as this is my finding I can only fairly expect it to react to the information its checks revealed. To be clear, I am not saying Mr H wasn't under financial pressure at the time of loan 1, rather that the proportionate checks Loans 2 Go carried out did not reveal this.

It follows I don't think Loans 2 Go was wrong to give loan 1 to Mr H.

Loan 2

Mr H returned to borrow just six months into the 18-month term of loan 1. The credit check showed his total debt had increased by around 60% and he was still reliant on his overdraft facility of around £2,000. He had also needed to take out a payday loan in March 2019. So given the direction of these trends I think Loans 2 Go ought to have carried out further checks.

I have reviewed Mr H's bank statements from the three months prior to Mr H's application. I am not saying this is exactly what the lender had to do, but it is a way for me to understand what better checks would most likely have shown. They show Mr H was having problems managing his money. He used at least six different payday lenders in the 12 weeks prior to this application. And he was spending an increasing amount of his income on gambling transactions: by August 2019 this had reached over half of his income. So had Loans 2 Go carried out better checks I think it would have realised Mr H was struggling financially and it was unlikely he would be able to sustainably repay loan 2.

It follows I think Loans 2 Go was wrong to give loan 2 to Mr H.

I did not find Loans 2 Go had acted unreasonably or unfairly towards Mr H in some other way. I then set out what Loans 2 Go would need to do to put things right.

Mr H said he had no comments to make on the provisional decision. Loans 2 Go did not respond.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

As neither party sent in any comments or new evidence in response to my provisional decision it follows I have no reason to change the findings or conclusion I set out there. I find Loans 2 Go was wrong to give loan 2 to Mr H, but not loan 1.

Putting things right

Loan 2

I think it's fair and reasonable for Mr H to repay the capital that he borrowed, because he had the benefit of that money. But he has paid interest and charges on a loan that shouldn't have been provided to him.

So Loans 2 Go should:

- Remove all interest, fees and charges from loan 2 and treat all the payments Mr H made as payments towards the capital.
- If reworking Mr H's loan account results in him having effectively made payments above the original capital borrowed for loan 2, then Loans 2 Go should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- Remove any adverse information recorded on Mr H's credit file in relation to loan 2.

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

My final decision

I am partially upholding Mr H's complaint in relation to loan 2. Loans 2 Go Limited must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 13 April 2022.

Rebecca Connelley
Ombudsman