DRN-3386207

The complaint

Mr F complains that Loans 2 Go Limited lent him money on a high interest loan which he couldn't afford to repay.

What happened

Loans 2 Go provided Mr F with a loan of £250 on 23 December 2019, repayable over 18 months at the rate of £57 a month. He settled the loan on 10 March 2020.

When Mr F applied for the loan, Loans 2 Go carried out a credit check, and independently verified his income. It verified this at £2,191 per month. It assessed his monthly expenditure was around £1,894 including credit commitments. Even adding a 10% buffer to that it believed the loan repayments of £57 were affordable.

Mr F supplied bank statements from three months before the loan up to a month after it. On review by our adjudicator, she didn't think that Loans 2 Go had needed to carry out further checks. On the information provided when the loan was applied for she said the loan appeared to be affordable and Loans 2 Go had acted reasonably.

Mr F didn't agree, pointing out the high number of payday loans in his credit record.

I issued a provisional decision. In it I said that in light of Mr F's credit record I didn't think that Loans 2 Go had made a fair lending decision.

Both parties accepted my provisional 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.

My provisional findings were as follows:

"We've set out our general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - on our website. Considering the relevant rules, guidance, and good industry practice, I think the 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 F would be able to repay the loan in a sustainable way?

If not, would those checks have shown that Mr F would have been able to do so?

The rules and regulations in place required Loans 2 Go to carry out a reasonable and proportionate assessment of Mr F'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 F 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 F. 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.

I think that such a 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 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).*

Looking at Mr F's credit record, I would observe that he had for some time been relying on payday loans and high cost credit. At the time of applying for the loan he had four payday loan accounts open, all of which he had applied for in the four months prior to this loan application. In addition, he had numerous such accounts on his record. His bank account had only occasionally been overdrawn. But I've noted that he had had regular funding from loans to keep it in credit.

In addition to the short term loans, he had a loan for which £2,763 was outstanding, and another loan with £864 outstanding. He had three credit cards, two of which were over their limits of respectively £150 and £250. He had a third credit card which had reached its limit of £850. In the affordability assessment and application a figure of £300 was put for his credit commitments. Looking at the credit report, I think it should have been around double that. It's difficult to put an accurate figure on it, as I don't know how much Mr F was paying towards his credit cards and the short term nature of the loans makes it difficult to assess when each loan was to be repaid. But I think it likely that his credit commitments amounted to around 29% of his income which I think is high.

I understand that the loan was for a relatively small amount, although it was at a high interest rate. Nevertheless, I bear in mind the discrepancy between the amount recorded for credit payments on his application and affordability assessment and that shown in the credit report, the very high number of payday and high cost loans, and the fact that Mr F had exceeded or reached his credit limit on three credit cards. Whilst Loans 2 Go has shown that he appeared to have a (small) disposable income, it's not just the pounds and pence affordability I take account of. I think taking those factors into account that the loan was likely to be *unsustainable.*

I think that Loans 2 Go carried out proportionate checks. But I don't think it reacted appropriately to what those checks showed. So I don't think it made a fair lending decision."

As both parties have accepted my provisional findings those findings are now final and form part of this final decision.

Putting things right

Mr F has had the benefit of the loan, so it's fair that he should have paid back the capital. But I think that Loans 2 Go should repay the interest and nay other charges. It should:

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

*HM Revenue & Customs requires Everyday to take off tax from this interest. It must give Mr F a certificate showing how much tax it's taken off if he asks for one.

My final decision

I uphold the complaint and require Loans 2 Go Limited to provide the remedy set out under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 18 April 2022.

Ray Lawley
Ombudsman