

The complaint

Mr B complained that Loans 2 Go Limited lent to him irresponsibly and provided him with an unaffordable loan.

What happened

Loans 2 Go provided a loan to Mr B as follows:

Date taken	Amount	Term	Monthly repayment	Total amount repayable over loan term	Date repaid
3/4/2021	£1,000	18 months	£228.56	£4,114.08	15/10/21

When Mr B complained to Loans 2 Go it said it didn't uphold his complaint but offered to refund him £450 as a gesture of goodwill in order to settle his complaint.

Mr B didn't feel this offer went far enough and so he brought his complaint to us.

Mr B told us that Loans 2 Go didn't do proper checks before lending and had it done so, it would've seen he had a gambling problem and should've realised he couldn't afford the loan.

One of our adjudicators looked into the complaint. She didn't think Loans 2 Go should have provided Mr B with the loan and so she upheld the complaint and set out the steps Loans 2 Go needed to take to put things right.

Loans 2 Go didn't agree with the adjudicator's assessment. It mainly said:

- it made a significant effort to ensure it had a full picture of Mr B's financial circumstances and a thorough affordability assessment was conducted showing the loan was affordable
- Mr B failed to tell Loans 2 Go about having a gambling addiction when he was asked a direct question about this
- Loans 2 Go wasn't required to ask for bank statements and so it couldn't say that the checks it made weren't proportionate or that a proportionate check would have revealed the gambling.

So the case 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've independently reviewed this complaint and reached the same conclusions as our adjudicator.

There are some key questions I need to consider in order to decide what's fair and reasonable in the circumstances of this particular complaint:

- ☐ Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Mr B would be able to repay the loan in a sustainable way? If so, did Loans 2 Go make a fair lending decision?
- ☐ If not, what would reasonable and proportionate checks have shown at the time?
- ☐ Did Loans 2 Go act unfairly or unreasonably in some other way?

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 looked affordable, a lender still needed to think about whether there was 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 carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr B's complaint.

Loans 2 Go asked Mr B about his income - which it took steps to verify. It also asked him about his expenditure and did some credit checks – which it has sent me. Loans 2 Go hasn't explained in detail how it worked out its affordability calculation but I've taken into account the information Loans 2 Go gathered from Mr B. I think it's fair to say that the figures Mr B declared seemed to suggest he had ample disposable income after taking into account his monthly expenditure and it appeared that he should have been able to comfortably afford the monthly repayments for this loan.

But given what Loans 2 Go understood about Mr B's financial situation, I think our adjudicator was right to be concerned about Loans 2 Go making its lending decision without doing more in-depth checks or taking steps to verify more of the information it was relying on – for instance, by going further in its checks into his expenditure. I say this because the information Loans 2 Go had gathered about Mr B's income and expenditure looked to be clearly at odds with his loan application.

Loans 2 Go understood that Mr B could safely rely on getting a minimum salary of at least £1,725 per month. It worked out that his monthly expenses amounted to around £1,186 – so this suggested Mr B should have more than £500 spare cash left each month.

On the face of it, this meant that Mr B could've saved up the loan amount in under two months. Of course, borrowers might choose to borrow immediately rather than save up and use their own money. But bearing in mind that Mr B signed up to potentially repay more than four times the original loan amount over the next 18 months this was a very expensive loan for him to take out and I think the onus was on the lender to understand why he seemed to want to do this. I can't see that Loans 2 Go took any meaningful steps to try to understand Mr B's actual financial situation – it doesn't even appear to have recorded the loan purpose.

So thinking about all the information Loans 2 Go had gathered, I don't think it was able to be satisfied on the information it had in front of it that it could safely conclude that it was safe to rely on its affordability assessment – so it wasn't in a position to conclude that the loan would be sustainably affordable for Mr B.

I think Loans 2 Go should have realised that it was no longer reasonable to base its lending decision on information Mr B was providing. I think it would have been proportionate for Loans 2 Go to have taken steps to independently verify the true state of Mr B's finances and it needed to do more in-depth checks to ensure it properly understood his financial situation before agreeing to provide this loan.

I've thought about what proportionate checks would likely have shown. Mr B has provided his bank statements so I've looked through these to see what Loans 2 Go was likely to have found out. To be clear, I'm not suggesting the lender should necessarily have done this. But, in the absence of other evidence, I think these give a reasonable guide as to Mr B's finances at the time.

And had Loans 2 Go looked in depth at Mr B's finances it would likely have seen that he was facing serious problems managing his money. I think it would have learnt that whilst Mr B's monthly salary was more than Loans 2 Go had allowed for - around £3,100 - he was nevertheless regularly spending very significant amounts on what appear to be gambling transactions. Our adjudicator mentioned Mr B spending more than twice his pay during the two months or so running up to him taking out this loan. He was substantially overdrawn at his bank during this time – starting and ending the month overdrawn by a four figure amount that exceeded his monthly pay - and he was incurring significant overdraft fees.

I think this paints an overall picture of someone whose spending was out of control. It is clear that Mr B didn't have sufficient (or any) disposable income out of which to repay the loan provided by Loans 2 Go. And had Loans 2 Go done what I consider would've been a proportionate check before agreeing this loan, it would've likely found out this information for itself.

Simply asking Mr B a question about gambling wasn't enough to discharge the obligation Loans 2 Go had to do enough to check that the loan was sustainably affordable for Mr B.

So I don't think it was reasonable for Loans 2 Go to conclude that it was likely Mr B would be able to repay this loan in a sustainable manner.

For these reasons, I am upholding Mr B's complaint that he should not have been given the loan.

Putting things right

Our adjudicator didn't recommend that Loans 2 Go should pay any additional redress. Mr B hasn't commented on that and I haven't seen anything which makes me think that Loans 2 Go acted unfairly or unreasonably towards Mr B in some other way.

So I haven't identified any reason for me to award any additional redress.

I think it is fair and reasonable for Mr B to repay the capital amount that he borrowed, because he had the benefit of that lending.

But he has paid extra for lending that should not have been provided to him.

In line with this Service's approach, Mr B shouldn't repay more than the capital amount he borrowed.

Loans 2 Go should do the following:

- ☐ add up the total amount of money Mr B received as a result of having been given the loan. The repayments Mr B made should be deducted from this amount.
- ☐ If this results in Mr B having paid more than he 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).
- ☐ remove any negative information recorded on Mr B's credit file regarding the loan.

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

My final decision

I uphold this complaint and direct Loans 2 Go Limited to take the steps I've set out above to put things right for Mr B.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 10 May 2022.

Susan Webb
Ombudsman