

## The complaint

Mr D complained that Loans 2 Go Limited irresponsibly provided him with an unaffordable loan.

## What happened

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

Date taken	Loan amount	Term	Monthly repayment	Total amount repayable	Loan status
2/1/2019	£300	18 months	£67.97	£1,223.46	outstanding

The loan purpose wasn't recorded on the application.

When Mr D complained to Loans 2 Go it didn't uphold his complaint so he brought his complaint to us. One of our adjudicators looked at the complaint and thought at first that Loans 2 Go shouldn't have provided the loan. So our adjudicator initially recommended that the complaint should be upheld and set out directions indicating what Loans 2 Go should do to put things right.

Loans 2 Go disagreed with our adjudicator's view and when our adjudicator reviewed the complaint she changed her mind and told Mr D that she no longer felt this was a complaint we could uphold.

Mr D disagreed with our adjudicator's view. He told us he wasn't sure how the loan was ever responsibly approved as his bank statements show he seemed to be using multiple loans, taking them out to pay off other loans. And he also complained about the way Loans 2 Go handled his account – in particular, about a lack of documentation which meant he felt that the loan terms were never made clear to him.

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.

"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.

Loans 2 Go asked Mr D about his income and expenses – including what he spent on his credit commitments. It also did its own credit check to understand Mr D's credit history. Loans 2 Go relied on an online income verification tool and understood that Mr D's minimum monthly pay was around £1,120. After reviewing the information it had gathered, Loans 2 Go boosted the monthly expenditure figure that Mr D had declared and calculated that he would need to spend approximately £900 in total each month. It also allowed for a 'buffer' of 10% of his verified expenditure to account for any fluctuations in his monthly income or expenditure. Based on this, Loans 2 Go said Mr D should've been able to afford the monthly repayment on this loan.

Like our adjudicator I think those checks were broadly proportionate. But despite recording information that appeared to show that Mr D had spare cash each month to cover the loan monthly repayments, I think Loans 2 Go should've realised that it couldn't rely on this information. That's because what Mr D had declared was significantly at odds with what Loans 2 Go saw on its credit checks showing that Mr D had taken out multiple short-term loans in the six months running up to him applying for this loan. The credit report Loans 2 Go obtained showed he had taken out eight short-term loans between June and December 2019 and three of these, taken out in the previous three months, were still outstanding.

I've thought carefully about everything Loans 2 Go has said and what I think a responsible lender should have made of all this information and in particular whether it was enough for Loans 2 Go to make a fair decision to lend, particularly as it doesn't seem to have known how Mr D intended to use the money. Keeping in mind that checks need to be borrower focussed, I don't think Loans 2 Go thought carefully enough about what the information it had gathered showed about Mr D's overall financial situation and the likelihood of him being able to pay its loan in a sustainable manner.

I think our adjudicator was right to say first time that all the indications were that Mr D wasn't managing his money well and he was already struggling financially. To my mind, it should've been apparent that Mr D probably didn't have the amount of disposable income that Loans 2 Go calculated - or indeed any spare cash, given that Mr D's pattern of lending suggested he was having difficulty maintaining payments he already owed to creditors and taking out new loans to repay his existing debt. All the signs were that his finances were, in reality, under significant stress and his debt was already unmanageable.

Despite the fact that this was a relatively small loan compared to his income, I don't think Loans 2 Go was reasonably able to be satisfied in these circumstances that Mr D would be able to make its loan repayments in a sustainable way.

And in my opinion, as a responsible lender, Loans 2 Go should've realised that Mr D would likely struggle to repay this loan – especially bearing in mind the 18 months loan term.

So thinking about all the information Loans 2 Go had gathered, I can't reasonably say that it made a fair lending decision based on the information in front of it. I don't think Loans 2 Go was able to safely conclude that its loan would be sustainably affordable for Mr D. And so it shouldn't have provided it and Loans 2 Go needs to put things right.

Even if Loans 2 Go disagrees with me, I hope it will reconsider its position and agree that the information it saw on the credit report it obtained should, at the very least, have prompted it

to find out more about Mr D's finances to ensure it had a proper understanding of his financial situation given the contradiction between what Mr D had said about his disposable income and the lending it saw.

And had Loans 2 Go done more in-depth checks, I've seen other information confirming that in the month or so prior to him making this loan application he spent more than £850 servicing his existing loans. I think this was such a significant proportion of his take home pay (he earned £1,078 in December 2018) that it would've been apparent that Mr D was unlikely to be able to make the loan repayments for this loan sustainably.

At this time, Mr D was persistently overdrawn on his bank current account, typically by a four figure amount that exceeded his monthly earnings. So, I think it would've been reasonably foreseeable that he would need to continue to borrow to cover his debt – and that's borne out by the fact that Mr D kept on seeking and obtaining new credit – including loans amounting to another £380 taken out later in the same month with different lenders.

For all these reasons, I don't think Loans 2 Go could reasonably have satisfied itself that its loan wouldn't be detrimental to Mr D and so it shouldn't have provided it.

I've thought about what Mr D has said about the high cost of the loan and the lack of paperwork. I think there was a large amount of interest payable on the loan and I can appreciate that he might now feel this was unfair. But this was an online application and I think it's fair to say that the loan agreement set out reasonably clearly both what the interest rate was and how much he would have to pay if the loan ran to term. Taking everything into account, I think Mr D was aware he was taking a high cost loan on terms he seemed happy to agree to at the time when he signed up to the agreement. So I can't fairly say that the high cost of this credit is a reason for me to uphold this complaint and I haven't seen enough to make me think that Loans 2 Go acted unfairly or unreasonably in some other way. So I'm not planning to award any additional redress."

### **What the parties said in response to my provisional decision**

I have heard nothing further from Mr D. Loans 2 Go has told me it accepts what I've said in 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.

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 and Loans 2 Go for reconsidering its position in light of what I said in my provisional decision. 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**

I think it is fair and reasonable for Mr D to repay the capital amount that he borrowed because he had the benefit of that lending - but he shouldn't repay more than this.

If Loans 2 Go has sold any outstanding debt it should buy this back if able to do so and then take the following steps. Otherwise, Loans 2 Go should liaise with the new debt owner to achieve the results outlined below and do the following:

- add up the total amount of money Mr D received as a result of having been given this loan. The repayments Mr D made should be deducted from this amount.
- If this results in Mr D 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).
- If any capital balance remains outstanding, then Loans 2 Go should attempt to arrange an affordable/suitable payment plan with Mr D bearing in mind the need to treat him positively and sympathetically if he still needs further time to pay what he owes.
- Whilst it's fair that Mr D's credit file is an accurate reflection of his financial history, it's unfair that he should be disadvantaged by the decision to lend this loan. So Loans 2 Go should remove any negative information recorded on Mr D's credit file regarding this loan.

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

### **My final decision**

For the reasons given above, I uphold Mr D's irresponsible lending complaint and direct Loans 2 Go Limited to take the steps set out above to put things right.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 20 April 2022.

Susan Webb  
**Ombudsman**