DRN-3401591

The complaint

Miss S says Loans 2 Go Ltd irresponsibly lent to her.

What happened

This complaint is about an 18-month instalment loan for £600 that Loans 2 Go provided to Miss S on 18 January 2021. The monthly repayments were £137.13 and the total repayable was £2,468.34.

Miss S says she is now behind on priority bills because of the loan. The term and interest rate were not explained to her thoroughly.

Our adjudicator upheld Miss S's complaint and thought Loans 2 Go shouldn't have given the loan. Loans 2 Go disagreed, saying the regulator 's guidelines do not define an acceptable loan to income ratio and in this case Miss S's credit check showed no sign of financial duress. It asked for an ombudsman's review, and so the complaint was passed to me.

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 general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website. Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Miss S's complaint. These two questions are:

1. Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Miss S would be able to repay the loan without experiencing significant adverse consequences?

    - If so, did it make a fair lending decision?
    - If not, would those checks have shown that Miss S would've been able to do so?

2. Did Loans 2 Go act unfairly or unreasonably in some other way?

The rules and regulations in place required Loans 2 Go to carry out a reasonable and proportionate assessment of Miss S'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 cause significant adverse consequences *for Miss S*. In practice this meant that business had to ensure that making the payments to the loan wouldn't cause Miss S undue difficulty or significant adverse consequences. 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 Miss S.

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.

In light of this, I think that a reasonable and proportionate 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 of time 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).

I’ve carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss S’s complaint.

Loans 2 Go has provided evidence to show that before lending it asked for some information from Miss S. It asked for her monthly income, expenses and employment status. It completed an income verification check with a third-party and checked her living costs against national averages. As a result it reduced her declared income slightly and increased her declared expenses. It carried out a credit check to understand her credit history and existing credit commitments. I can’t see it asked about the purpose of the loan. Based on these checks Loans 2 Go concluded the loan would be affordable for Miss S.

I think these checks were proportionate but I don’t think the lender made a fair lending decision based on the information it gathered. I’ll explain why.

From the credit check it completed Loans 2 Go knew Miss S had credit commitments of £368.10. By giving this loan Loans 2 Go was increasing the proportion of her monthly income that Miss S would need to spend on servicing her debt to over 30%. At this level I think it ought to have realised there was a risk Miss S would not be able to repay this loan without suffering adverse financial consequences. And to meet its regulatory obligations it needed to consider this, not just the pounds and pence affordability.

Loans 2 Go argues that there are no regulatory guidelines with regards to debt to income ratios - and Miss S’s credit check showed no adverse data. Her accounts were all up-to-date or settled. But as I’ve set out above it was required to think about the likely impact of its lending on Miss S over the term of the loan – not just her current position. And from our experience when a significant proportion of income will be needed to service an applicant’s debt there is a risk of subsequent financial difficulties, so this does not change my conclusion. It follows I think Loans 2 Go was wrong to give this loan to Miss S and Loans 2 Go needs to put things right.

I’ve also thought about whether Loans 2 Go acted unfairly in some other way and I haven’t seen any evidence that it did. Miss S says the lender didn't explain the loan term or the high interest rate well enough. I accept the APR was high, but Miss S had to actively engage in the application process, so I think it's likely that she was aware of what she was agreeing to pay and over how many months. It was clearly set out on the Pre-Contract Credit Information and loan agreement that she signed. And I haven't seen anything which makes me think that Loans 2 Go treated Miss S unfairly or breached industry practice regarding interest charges. But that said, the interest and charges will be refunded as I've concluded that loan shouldn't have been given.

Putting things right

I think it is fair and reasonable for Miss S to repay the capital amount that she borrowed, because she had the benefit of that lending. But she has paid extra for lending that should not have been provided to her so Loans 2 Go needs to put that right.

It should:

- Remove all interest, fees and charges from the loan and treat all the payments Miss S made as payments towards the capital.
- If reworking Miss S's loan account results in her having effectively made payments above the original capital borrowed, 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*.
- If reworking Miss S's loan account results in there being an outstanding capital balance the lender must try to agree an affordable repayment plan with Miss S.
- Remove any adverse information recorded on Miss S's credit file in relation to the loan.

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

My final decision

I am upholding Miss S's complaint. 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 Miss S to accept or reject my decision before 26 May 2022.

Rebecca Connelley
Ombudsman