DRN-3442255

The complaint

Mrs L has complained about loans granted to her by Loans 2 Go Limited ("L2G"). She says that L2G didn't carry out the required checks before lending to her.

Mrs L has brought her complaint to us via a Claims Management Company but for simplicity I will refer to her throughout.

What happened

L2G agreed five loans for Mrs L between 2017 and 2019. Some of the information L2G provided is shown in the table below (all figures rounded to the nearest pound).

Loan	Start date	End date	Principal	Monthly repayments	Term (months)	Total repayable	Total paid
1	29/04/2017	01/08/2017	£1,000	£193	12	£2,320	£1,440
2	01/08/2017	03/02/2018	£1,900	£262	36	£9,424	£3,154
3	03/02/2018	25/09/2018	£1,900	£262	36	£9,424	£3,523
4	25/09/2018	29/01/2019	£2,400	£331	36	£11,904	£3,768
5	04/04/2019	06/06/2019	£550	£64	18	£1,144	£698

I understand that the first three loans were repaid with some of the capital from the following loan. As shown in the table there was a gap of a few months between Mrs L's fourth loan being settled and her fifth loan being agreed.

These were all 'log book' loans, in other words they were granted on the basis that Mrs L provided L2G with a bill of sale for her car. This meant that if Mrs L didn't make her loan repayments L2G could potentially recoup any losses through the sale of her vehicle.

Mrs L says that L2G didn't look into her finances properly before lending to her and, had it done so, it would have seen that the loans were unaffordable for her.

L2G says it asked Mrs L about her income and expenditure each time she applied for a loan. It says it undertook credit checks and validated Mrs L's income and expenditure information, which led it to conclude that the loans were affordable. L2G also says that Mrs L did not miss any payments at all during the loan terms or give any indication that she was facing any financial problems.

One of our investigators looked into what happened when each of Mrs L's loans were agreed. They found that L2G didn't carry out proportionate assessments before lending to Mrs L. However, they also found that they didn't have enough information to come to a view about what L2G might have learnt about Mrs L's circumstances, had it carried out further checks. So they didn't uphold Mrs L's complaint. Mrs L provided some further information in response, but our investigator didn't consider it to be sufficiently relevant to the time period to change their mind.

Mrs L asked for the complaint to come to an ombudsman for a formal resolution and it came to me. I issued a provisional decision on 13 April 2022 explaining that I'd found L2G shouldn't have agreed loans 3, 4 or 5 for Mrs L and so her complaint should be upheld in part.

Mrs L agreed with my provisional decision and L2G said that it didn't have any further comment or information for me to consider. This is my final decision on the matter and will be legally binding on both parties if Mrs L accepts it.

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.

Having done so, and as I've had no new information or comment to consider, my initial conclusion remains unchanged. I'll set out my reasons and conclusion again for completeness.

As I'd said in my provisional decision, L2G will be familiar with the regulations in place at the time so I will summarise its main obligations. L2G needed to check that Mrs L could afford to meet her repayments without difficulty before agreeing each loan. In other words, it needed to check that she could meet her repayments out of her usual means without having to borrow further and without experiencing financial difficulty or other adverse consequences. The necessary checks needed to take into account both the nature of the credit (amount, term etc.) and Mrs L's particular circumstances.

The overarching requirement was that L2G needed to pay due regard to Mrs L's interests and treat her fairly. The Consumer Credit (CONC) handbook paragraph 2.2.2G gave an example of contravening this requirement as 'targeting customers with regulated credit agreements which are unsuitable for them by virtue of their indebtedness, poor credit history, age, health, disability or any other reason.'

With this in mind, my main considerations are did L2G complete reasonable and proportionate checks when assessing Mrs L's applications to satisfy itself that she would be able to make her repayments without experiencing adverse consequences? If not, what would reasonable and proportionate checks have shown and, ultimately, did L2G make fair lending decisions?

I've started by looking at the information L2G relied on. Mrs L told L2G that her net monthly income was £1,400 when she applied for her first loan. She said her monthly living costs came to £473 and her monthly credit commitments came to £565, a total of £1,038.

L2G provided copies of Mrs L's payslips from around that time and I can see that her usual wages (without overtime) came to £1,463 a month. So, L2G knew that Mrs L was spending almost 40% of her monthly income on repaying debt. Adding this loan to her commitments would increase that proportion to over half.

L2G also relied on Mrs L's credit report and provided a copy of the report from that time. I've noted that:

- Mrs L's total debt was almost £4,000 and she had taken out a large loan of £3,000 just six months before in February 2017 which had monthly repayments of

£298;
- She had 10 active accounts, four of which had been opened within the last six months;
- One account was delinquent and she had six defaults recorded, one within the last year;
- She was in an arrangement to pay on a short term loan she'd taken out within the year at £25 a month.

About three months later, Mrs L applied for another loan. As before L2G asked Mrs L about her income and expenditure and checked her payslips and her credit file. Mrs L said she spent £862 a month, £370 of which was on repaying existing credit (excluding L2G's loan). Her payslips show her usual wages (without overtime) were £1,451. Agreeing this loan would potentially leave Mrs L paying over 40% of her wages each month repaying debt.

The credit report L2G provided shows that Mrs L was now making repayments on a second defaulted account of £50 through a debt collector and she'd continued with her arrangement to pay on her short term loan. The report also shows she had taken out another payday loan just before her first L2G loan and had repaid this at £150 a month for three months. Mrs L had continued to meet her repayments of £298 on her large loan and her credit cards, while meeting her repayments on her first L2G loan.

Having considered all the information I have available, I don't think L2G was irresponsible to have agreed these two loans for Mrs L. However, I do think L2G was on notice that Mrs L had a relatively high level of existing debt and was continuing to borrow from short term high cost lenders. I think the additional information L2G had available to it when Mrs L applied for later loans should have prompted it to decline to lend to her.

In February 2018, Mrs L applied for a third loan. She said her average monthly income was £1,473 and her total outgoings came to almost £1,090. L2G estimated that Mrs L had £386 approximately left over each month. Mrs L's payslips from around that time show that her income without overtime (for example for the month of November 2017) came to £1,451. This means Mrs L would potentially have £100 left to meet any unexpected costs in any one month after meeting the loan payment of £262, and I've borne in mind she had a dependent. I note that Mrs L said she spent over £700 repaying existing debt (excluding her second L2G loan), which included paying for a car for a family member and repaying two short term loans. Agreeing a third loan for Mrs L would potentially mean committing her to repaying £980 a month or 66% of her (average) wages on existing debt.

Mrs L's first loan with L2G was for £1,000. Now, ten months later, Mrs L wanted to borrow almost double that amount, and this was her third loan and second refinancing. I think L2G ought to have realised at this point that Mrs L wasn't making inroads into her debts either with it or with other lenders and that agreeing further credit for her was simply adding to her level of indebtedness. Given the margin Mrs L would potentially have left over each month, the proportion of her wages she was spending and would potentially continue to spend on repaying debt, and that this was her third loan within a year, I think L2G didn't treat Mrs L fairly when it agreed to lend to her a third time.

Mrs L went on to take out two more loans from L2G within 14 months and I haven't seen anything which makes me think her circumstances had significantly improved over that time. The credit file report provided by L2G at the time of Mrs L's fourth loan (September 2018) shows she had incurred a county court judgement in April 2018 and had been in sustained arrears on her existing large loan (with the payments of £298) throughout

2018, eventually defaulting on this in August 2018. In addition Mrs L had taken out several short term loans since her previous L2G loan. The credit file report for Mrs L's fifth and final loan shows she had continued to rely on short term loans in the interim and was spending approximately £870 each month repaying existing debt. I appreciate Mrs L’s wages had increased to £1,650 by this point, but her debt repayments were still taking up more than half her wages and her credit score as shown on the reports from L2G had decreased considerably.

In summary, I think L2G shouldn’t have agreed to lend to Mrs L a third, fourth or fifth time. I think she’s ended up paying interest and charges on these loans and potentially had her credit file adversely impacted. I’ve set out below what L2G should do to put things right.

Putting things right

I think it’s fair that Mrs L repays the principal she borrowed on her third, fourth and fifth loans as she’s had the use of this money. However, I don’t think Mrs L should be liable for any interest or charges on these amounts or have her credit record adversely impacted.

In order to put things right for Mrs L, L2G needs to:

a) Refund to Mrs L all payments she made above the principal amounts she borrowed for the three loans taken out in 2018 and 2019;
b) Add 8% simple interest per annum to these overpayments from the date they were paid to the date of refund; and
c) Remove any adverse information about these loans from Mrs L’s credit file; and
d) Revoke the Bill of Sale for Mrs L’s car if this is still in place and return any relevant documents to her if it hasn’t already done so.

*HM Revenue & Customs requires L2G to deduct tax from this interest. It should give Mrs L a certificate showing how much tax it has deducted if she asks for one.

My final decision

For the reasons I’ve explained above I’m upholding Mrs L’s complaint in part and require Loans 2 Go Limited to put things right as I’ve set out.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs L to accept or reject my decision before 19 May 2022.

Michelle Boundy
Ombudsman