

## The complaint

Mr W complained that Loans 2 Go Limited didn't do proper affordability checks and so lent to him irresponsibly and provided loans that were unaffordable.

## What happened

Mr W took out loans with Loans 2 Go as follows:

Loan	Date taken	Loan amount	Monthly instalments	Monthly repayment	Loan paid
1	July 2019	£250	18	£57.14	by loan 2
2	February 2020	£642.91	18	£146.94	by loan 3
3	August 2020	£809.09	18	£184.92	February 2021

The loan purposes weren't recorded on the applications.

When Mr W 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 that Loans 2 Go shouldn't have provided any of the loans. Our adjudicator 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 in part. Whilst it now agreed that loan 1 should be upheld, it said the information it saw on Mr W's credit reports showed the majority of his payments were up to date and there wasn't anything else that suggested he was struggling financially when he took out loans 2 and 3.

So, as the complaint hasn't been resolved, it comes to me for a 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 general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website.

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.

As Loans2Go has agreed to uphold Mr W's complaint about loan 1 and do what is needed to put things right in line with our adjudicator's recommendation, then I don't need to consider this loan further save to include it in the redress.

For loan 2, Loans 2 Go asked Mr W about his income and expenses – including what he spent on his credit commitments. It also did its own credit check to understand Mr W's credit history. Loans 2 Go verified that Mr W's minimum monthly pay was around £1,532. After reviewing the information it had gathered, Loans 2 Go boosted the monthly expenditure figure that Mr W had declared and calculated that he would need to spend approximately £1,214 in total each month. It also took into account nationally available statistics when thinking about Mr W's likely spending and 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 W should've been able to afford the monthly repayment on this loan.

Our adjudicator didn't think those checks were proportionate, but I don't need to make any findings on this point because I think Loans 2 Go had already gathered information that should've prompted it to decline this loan application.

Despite recording information that led Loans 2 Go to conclude that Mr W had enough 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 W had declared was significantly at odds with what Loans 2 Go saw on its credit checks showing Mr W's credit history.

Whilst having an impaired credit history or other borrowing wouldn't be unusual for a borrower applying for this type of expensive borrowing, and it wouldn't necessarily be a bar to lending, I don't think Loans 2 Go thought carefully enough about what the information it had gathered showed about Mr W's overall financial situation and the likelihood of him being able to pay its loan in a sustainable manner.

I say this because Mr W had a credit card over its limit and he was 3 payments in arrears on that account. He had used almost all of the available credit on his other credit cards and been in default on a loan just two months earlier. On top of this, it was apparent that Mr W was over his £2,000 overdraft limit at the bank.

I've taken carefully into account everything Loans 2 Go has said in response to our adjudicator's assessment about the way it assessed affordability. And I've thought carefully about 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 W intended to use the money.

I think our adjudicator was right to say that all the indications were that Mr W was already struggling financially.

To my mind, it should've been apparent that Mr W probably didn't have the amount of disposable income that Loans 2 Go calculated - or indeed any spare cash. Given that Mr W was having difficulty maintaining payments he already owed to creditors and bearing in mind his overdraft substantially exceeded the amount of his monthly income, this meant he would most likely have to rely on using borrowed money from the bank to cover his monthly outgoings and credit commitments for some time.

All the signs were that his finances were, in reality, under significant stress and his debt was already unmanageable. I don't think Loans 2 Go was reasonably able to be satisfied in these circumstances that Mr W would be able to make its loan repayments in a sustainable way.

Also, bearing in mind the repayment of this loan on top of the credit commitments Loans 2 Go saw in its credit checks, I think it's fair to say that Mr W needed to pay a significant portion of his income towards credit. And in my opinion, as a responsible lender Loans 2 Go should've realised that Mr W would likely struggle to repay this loan – especially bearing in mind the 18 month 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 when it provided loan 2.

When Mr W applied for loan 3, this was the second time that he'd applied for a top up – which he used to repay loan 2, taken out just 6 months or so earlier and also provide him with some extra cash. Loans 2 Go took Mr W through the same loan application process and updated the information it used in its affordability checks.

I think it's fair to say that Mr W's financial situation hadn't significantly improved despite the fact this was now his third loan from Loans 2 Go. He hadn't made all his payments on time for loan 2 and he was now a payment in arrears on two of his credit cards. His verified income had decreased during the period he'd been borrowing from Loans 2 Go - whilst at the same time his borrowing with Loans 2 Go was increasing and his loan repayments were escalating. Mr W was still committed to paying such a significant proportion of his income towards meeting his credit commitments when he was already over-stretched financially that, realistically, I think it should've been apparent that this loan wasn't likely to be sustainably affordable for him.

I think that's borne out by the payment problems he soon ran into. The fact that he settled the loan early isn't enough to persuade me that he was able to do so in a way that was sustainable.

And so Loans 2 Go shouldn't have provided loan 3 and it needs to put things right.

## **Putting things right**

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

Loans 2 Go should do the following:

- add up the total amount of money Mr W received as a result of having been given loans 1,2 and 3. The repayments Mr W made should be deducted from this amount.
- If this results in Mr W 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 W 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 W's credit file is an accurate reflection of his financial history, it's unfair that he should be disadvantaged by the decision to lend these loans. So Loans 2 Go should remove any negative information recorded on Mr W's credit file regarding loans 1,2 and 3.

\*HM Revenue & Customs requires Loans 2 Go to deduct tax from this interest. Loans 2 Go should give Mr W 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 W.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 26 May 2022.

Susan Webb  
**Ombudsman**