

## The complaint

Mr O complained that 1Plus1 Loans Limited trading as 1Plus1 Loans lent to him irresponsibly and provided him with an unaffordable loan.

## What happened

Mr O was given a loan by 1Plus1 as follows:

Date taken	Amount	Term	Monthly repayment	Interest	Loan status
March 2017	£5,000	36 Months	£234.73	£3,450.28	Paid February 2020

Mr O told 1Plus1 he planned to use the loan to pay for a car.

One of our investigators reviewed Mr O's complaint. She didn't think that 1Plus1 should've provided the loan and so she recommended upholding the complaint and set out the steps 1Plus1 needed to take to put things right.

1Plus1 disagreed with our investigator's view. In brief summary, it mainly said it was satisfied that its affordability assessment showed this loan was easily affordable for Mr O and his adverse credit history reflected his attitude to credit rather than lack of affordability.

As the complaint hasn't been resolved, it 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 have also taken into consideration regulatory rules and good industry practice at the time.

I've looked at the complaint afresh and I've independently reached the same conclusions as our investigator and I am upholding Mr O's complaint for broadly the same reasons. I'll explain in more detail why I say this.

Lenders must work out if a borrower can sustainably afford the loan repayments alongside other reasonable expenses the borrower also has to pay.

I've kept in mind that the rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. And a fair lending decision includes more than just checking that the loan payments look affordable on a strict pounds and pence calculation. Even if a loan looks affordable, a lender still needs to think about whether there is 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 already struggling with debt that can't be repaid in a sustainable way.

On this occasion, 1Plus1 asked Mr O about his income and expenditure, it carried out credit checks to understand his credit history and an electronic check to verify his pay. It also took into account statistical information when comparing Mr O's declared expenditure against national data showing typical spending for someone in the same situation.

1Plus1 recorded a figure of £6,800 net salary per month. After doing its own background checks and allowing for what it thought he would likely need to spend each month, plus a buffer of £400 for emergencies, 1Plus1 worked out that Mr O should still have been left with around £2,900 disposable income. This was much more than the monthly repayment needed to cover its loan, so this led 1Plus1 to conclude that the loan was affordable for Mr O.

I've taken carefully into account everything 1Plus1 has said about the way it assessed affordability. And I've thought carefully about what a responsible lender should have made of all the information it had gathered and, in particular, whether it was enough for 1Plus1 to make a fair decision to lend.

Our investigator thought 1Plus1 needed to do further checks before agreeing this loan. 1Plus1 responded by asking our investigator to obtain bank statements that showed the monthly repayments weren't affordable. But I don't need to say more about this or make a finding on the proportionality of the checks 1Plus1 did because this makes no difference to the outcome of this complaint. I think the checks 1Plus1 did carry out meant the lender already had enough information in front of it to realise that this loan looked unsustainable for Mr O.

I say this because 1Plus1 had information showing that Mr O already had serious money management problems.

From its credit checks, 1Plus1 could see that Mr O already had total outstanding unsecured debt of around £21,574. I don't think that seemed excessive or disproportionate for someone earning as much as Mr O. But I think it was concerning that approximately a third of his total indebtedness related to a single defaulted account from July 2012 now with a debt collector – and this was likely to remain the case for the foreseeable future given that Mr O was paying just £200 towards this.

I think it's fair to say an historic default might not tell a lender very much useful information about someone's overall financial situation some five years later. And although 1Plus1's affordability assessment suggested that Mr O could have repaid this debt out of surplus cash, easily within 3 months, I accept that Mr O might have had his own reasons for not paying more towards clearing this old default.

But 1Plus1 could see from its credit checks that Mr O had another much more recent default from November 2016, around four months prior to this loan application. I think 1Plus1 would have understood this suggested that Mr O's apparent money problems were not just historic but potentially ongoing.

I'm mindful that the defaulted balance was just £63 and possibly this was simply an account that Mr O might've overlooked. But I think the indications of financial difficulty were also borne out by the following information that 1Plus1 could also see:

- a loan with another provider of expensive short term and high cost lending which had a balance of £2,359 – Mr O had fallen behind on the loan repayments over the

previous nine months or so and he was in a payment arrangement and paying £334 per month towards this account

- another large loan (with a different high cost credit provider) with a balance of £7,032 and a monthly repayment of £365. Mr O had also fallen behind with payments owed on this loan just three months earlier. And although the account had quickly been brought back up to date, 1Plus1 was aware from its discussion with Mr O that this was a guarantor loan – in other words, someone else was responsible for making the loan repayment if Mr O failed to do so. This wasn't discussed in any detail with Mr O as far as I can tell. So I don't think 1Plus1 could reasonably have drawn any positive conclusions about the affordability of its loan just based on the fact this account had been promptly rectified.
- Mr O had also been in arrears around the same time on a communications account
- and he had two mail order accounts both in arrears dating back some months. The balances were £285 and £602.

1Plus1 needed to think about bigger picture. Whilst its affordability assessment suggested that its loan looked affordable, I think the conclusion that Mr O had as much (or any) disposable income was clearly at odds with all this information which indicated a persistent pattern of late and failed payments and long outstanding and unresolved debt issues. Mr O appeared to be unable to manage even small repayments of credit such as minimum repayments on mail order accounts with relatively low balances. He had outstanding balances on credit cards that he could have comfortably cleared if he had really had the amount of surplus cash 1Plus1 thought he ought to have. Credit card debt is expensive and it seems unlikely to me that someone on top of their finances, even a person with a relaxed attitude towards using credit, would choose to incur avoidable interest which had the potential to add very significantly to credit card debt.

To sum up, despite what its affordability assessment appeared to show, I think 1Plus1 had acquired enough information overall for it to have realised that it wasn't fairly able to conclude that a further monthly commitment of around £234 each month for next three years was likely to be sustainably affordable.

In coming to my decision, I've taken into account everything 1Plus1 has said, including its response to the investigator's view. I acknowledge that the lender took some steps to verify income (using third party sources). But it didn't do any particular checks into Mr O's declared or actual spending. Instead, it seems to have mainly relied on statistical information to compare Mr O's expenditure against national data showing typical spending for someone in the same situation – even though what it saw in its credit checks didn't seem to fit the expected pattern for someone apparently in his comfortable financial situation.

Given that its affordability assessment was based on limited information and supposition and bearing in mind the evidence it saw in its credit checks, I think 1Plus1 should have understood that its affordability assessment couldn't be relied on. And, in reality, that Mr O appeared to be struggling to repay his existing credit commitments. So further lending, which 1Plus1 knew would likely add to his total indebtedness and increase his monthly credit spend, was not sustainably affordable on the balance of the evidence in front of it.

1Plus1 said that Mr O's attitude to credit is the reason for his adverse credit history but that seems to be an assumption on the part of 1Plus1 based on his high income level. I've listened carefully to the call recording 1Plus1 had with Mr O during the loan application process when it discussed Mr O's financial situation with him. I can't fairly say that 1Plus1

enquired in any meaningful way into the reasons for his adverse credit history. It didn't, for instance, ask Mr O to explain his historic defaults or his record of missed payments.

And I don't think it necessarily follows that having a high income means credit is automatically affordable – at least, not without a proper understanding of how money is actually being spent and 1Plus1 didn't have that knowledge. What 1Plus1 actually saw contradicted its assertion that the loan was affordable.

Given that this was a large loan, over a three year term with significant interest being added, it already carried a high risk of becoming unaffordable or unsustainable.

All in all, I don't think 1Plus1 was reasonably able to say that the information it gathered supported its lending decision or that it saw enough to be satisfied that Mr O would be able to sustainably afford to make the repayments for its loan when the indications were that he couldn't afford to maintain payments towards existing accounts.

For all these reasons, I can't reasonably say that 1Plus1 made a fair lending decision based on the information in front of it and I don't think it should have agreed to provide this loan to Mr O.

As Mr O has been further indebted with a high amount of interest and charges on a loan that he shouldn't have been provided with, I'm satisfied that he has lost out as a result of what 1Plus1 did wrong.

So, 1Plus1 needs to put things right.

### **Putting things right**

Our investigator didn't recommend that 1Plus1 should pay any additional redress. Mr O hasn't commented on that and I haven't seen anything which makes me think 1Plus1 acted unfairly towards Mr O in any other way. So I'm not awarding any additional redress.

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

But he has been charged extra for a loan that should not have been provided to him. In line with this Service's approach, Mr O shouldn't repay more than the capital amount he borrowed.

1Plus1 should do the following:

- add up the total amount of money Mr O received as a result of having been given this loan. The repayments Mr O made should be deducted from this amount.
- If this results in Mr O 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).
- I understand the loan is paid in full, but if any capital balance should remain outstanding, then 1Plus1 should attempt to arrange an affordable/suitable payment plan with Mr O.

- Whilst it's fair that Mr O's credit file is an accurate reflection of his financial history, it's unfair that he should be disadvantaged by any adverse information recorded about a loan that was unfairly provided. So 1Plus1 should remove any negative information recorded on Mr O's credit file regarding the loan.

\*HM Revenue & Customs requires 1Plus1 to deduct tax from this interest. 1Plus1 should give Mr O a certificate showing how much tax has been deducted if he asks for one.

### **My final decision**

I uphold Mr O's complaint and direct 1Plus1 Loans Limited trading as 1Plus1 Loans to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 3 August 2022.

Susan Webb  
**Ombudsman**