

## **The complaint**

Mr O complains that Loans 2 Go Limited lent him money on a high cost loan which he was unable to afford to repay. He also says that the rate of interest was excessively high.

## **What happened**

On 17 June 2020 Loans 2 Go provided Mr O with a loan of £1,000 repayable at a monthly rate of around £229 for a period of 18 months. He struggled to repay the loan, missing payments almost immediately. Then in 2021 he suffered a drop in income, and was allowed a payment holiday of three months by Loans 2 Go. He later complained that the loan was unaffordable for him and he felt the interest rate was extortionate. Loans 2 Go offered to reduce the outstanding interest by 50% then by 60%. However Mr O declined both offers. Mr O has supplied his bank statements for the three months leading up to and including the loan payment.

Loans 2 Go says that it assessed Mr O's outgoings and credit commitments at £789.50 a month against the £151 declared by him. It calculated his minimum monthly income at around £1,178. Allowing a buffer of 10% for emergencies it still determined that he was able to afford the loan repayment from his disposable income. It has supplied copies of the loan documents, the credit report, its file notes, and the list of his outgoings supplied on his application.

Our adjudicator considered Mr O's bank statements and whether Loans 2 Go would've done anything differently had it seen this information before lending to him. But based on this information, she didn't think Loans 2 Go could've concluded that Mr O wouldn't have been able to sustainably repay the loan.

Mr O disagreed, pointing out that he was a single parent with three children and he had little income left at the end of each month with which to pay the loan instalments.

I issued a provisional decision. I didn't think that Loans 2 Go should have assessed the loan as being sustainable, so it didn't make a fair lending decision.

Mr O accepted my provisional findings. Loans 2 Go said that it had no additional points to make.

## **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.

I made the following provisional findings:

*"We've set out our general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - on our website.*

*Considering the relevant rules, guidance, and good industry practice, I think the questions I*

*need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:*

- *Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Mr O would be able to repay the loan in a sustainable way?*
- *If not, would those checks have shown that Mr O would have been able to do so?*

*The rules and regulations in place required Loans 2 Go to carry out a reasonable and proportionate assessment of Mr O'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 be sustainable. In practice this meant that it had to ensure that making the repayments on the loan wouldn't cause Mr O undue difficulty or significant adverse consequences. That means he should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation.*

*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 Mr O. 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.*

*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 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).*

*The repayments for this loan represented a substantial commitment for Mr O considering his assessed monthly income. So I think that Loans 2 Go should've carried a thorough assessment of Mr O's circumstances.*

*I've also noted Mr O's current financial position. I'm sorry that his financial circumstances seem to have got worse since taking out the loan, but I should advise him that Loans 2 Go could only consider his position at the time of applying for the loan.*

*According to his application Mr O declared his monthly income to be around £1,600 and his outgoings £151, with no credit commitments. Loans 2 Go carried out verification checks and assessed his income to be a minimum of £1,100 a month. It also assessed his*

*outgoings, including credit commitments at £789.50. With a 10% buffer for emergencies this would mean a disposable income of around £309 with which to pay the loan payment of £229.*

*I think this would have been only just affordable, but I have to consider whether Loans 2 Go could have done more to assess Mr O's circumstances. The only information it's given to us concerning its checks outside of his application is the credit report. The first thing to note from that report is that Mr O had three loans and a credit card that were in default. There had been no action on these accounts for some time (according to the report) but they still had active balances on them, and I've noted three of them were with a debt collector. So whilst Loans 2 Go rightly didn't accept Mr O's list of his outgoings at face value, I think it should have carried out further checks. This could have meant for example looking at his bank statements for the months leading up to the application.*

*I have considered Mr O's bank statements. I've firstly noted a payment of £140 a month to a firm of debt collectors/bailiffs. Added to his other loan payments totalling £117 a month this would bring his credit commitments alone (before Loans 2 Go's loan) to £357. With the loan instalment of £228 added this would mean credit commitments of nearly 50% of his income which I think in this case is too high, especially bearing in mind his disposable income. There's no indication that the loan was to be used for debt consolidation, and Loans 2 Go didn't seek to pay off any of Mr O's debts before releasing the loan monies to him. Even discounting the debt collector payment his commitments would still have been high, at about 30% of his income.*

*Looking at his monthly outgoings, I note a monthly payment of "half of bills" to (presumably) Mr O's partner of £480. He also had payments for fuel and car maintenance and groceries which means that even Loans 2 Go's assessment of his outgoings was modest.*

*I think that Loans 2 Go's checks were proportionate and that those checks should have alerted it to carry out a more thorough assessment of Mr O's circumstances. With or without this further assessment I think the payments for the new loan should have been assessed as being unsustainable. So I don't think that Loans 2 Go made a fair lending decision.*

*As regards the rate of interest on the loan, this was high even for a high interest loan. However as a loan that was to be repaid over more than twelve months there's no cap on the rate of interest that can be charged. I've noted that the loan documents set out the rate of interest and the monthly repayments and that he signed the documents electronically before the loan could proceed."*

*As neither party has any further comments to make my provisional findings are now final and form part of this final decision.*

### **Putting things right**

Mr O has had the capital sum for the loan and it's fair that he repays this. So I will require Loans 2 Go to do the following:

- Remove all interest, fees and charges applied to the loan.
- Treat any payments made by Mr O as payments towards the capital amount of £1,000.

- If Mr O has paid more than the capital, refund any overpayments to him with 8%\* simple interest from the date they were paid to the date of settlement.
- But if there's still an outstanding balance, Loans 2 Go should come to a reasonable repayment plan with Mr O.
- Remove any adverse information about the loan from Mr O's credit file.

\*HM Revenue & Customs requires Everyday to deduct tax from this interest. It should give Mr O a certificate showing how much tax it's deducted if he asks for one.

### **My final decision**

I uphold the complaint in part and require Loans 2 Go Limited to provide the remedy set out under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 16 June 2022.

Ray Lawley  
**Ombudsman**