

The complaint

Mr R complained that Loans 2 Go Limited acted irresponsibly when it gave him unaffordable loans.

What happened

Mr R took out three loans with Loans 2 Go as follows:

Loan	Date taken	Loan amount	Scheduled term	Weekly repayment	Total repayable	Date repaid
1	6/11/2019	£800	78 weeks	£42.19	£3,290.82	7/11/2019
2	17/11/2019	£500	78 weeks	£26.37	£2,056.86	14/7/2020 when balance paid by loan 3
3	14/7/2020	£587.75	78 weeks	£31.00	£2,418.00	25/9/2020

Mr R brought his complaint to us through his representative, but to keep things simpler, I'll just refer to Mr R.

Our adjudicator assessed the complaint and didn't think that any of the loans should've been provided. He set out his findings in a letter explaining how he'd come to his view.

Loans 2 disagreed. It mainly said that Mr R's credit commitments and all his monthly expenditure was taken into account when assessing affordability and the loans were all affordable for him. It said that although he had other open credit commitments Mr R was managing these properly and there was no evidence that he was struggling to keep up the repayments on his borrowing.

The complaint came to me to decide. I issued a provisional decision.

What I said in my provisional decision

Here are some of the main things I said.

"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.

I've thought about each loan in turn.

Mr R changed his mind about borrowing loan 1. He returned the money he'd borrowed and he didn't incur any costs or have to pay any interest as a result of taking out this loan. As he hasn't had to pay anything extra, he didn't lose out financially in relation to this loan. So, I don't need to consider this loan further as there isn't anything Loans 2 Go would need to do to put things right.

I'll concentrate on looking into loans 2 and 3.

Loans 2 Go asked Mr R about his income and expenditure and also carried out credit checks. Loans 2 Go checked Mr R's declared income using third party data and was satisfied that his minimum monthly income was around £1,738.

After allowing for the cost of the repayments he would have to make for the loan on top of his other monthly outgoings, Loans 2 Go worked out that the repayments should still have been affordable for Mr R.

I can't see that there was anything in the information Mr R provided, or the other information Loans 2 Go had recorded, which meant that Loans 2 Go should've taken more steps to check the information Mr R had declared. He had evidently had some money problems in the past. But the defaults shown, whilst concerning, weren't enough in my view to have prompted a responsible lender to have declined this loan application. These dated back a number of years and those accounts had since been settled. So I don't think Mr R would have had any incentive to take further action in relation to those accounts, especially as the information about them would no longer be reported on his credit file once it had been shown for 6 years.

It's fair to say that Loans 2 Go was able to see that Mr R was three payments in arrears on a credit card that was £50 over its £200 credit limit and he was in an arrangement to pay on a short-term loan – suggesting he was finding it hard to meet all his contractual credit commitments. But set against this, his two bank accounts looked to be well managed and he wasn't shown as being in overdraft. His overall amount of debt wasn't excessive or concerning for someone with his level of earnings. He wasn't shown as being in bankruptcy or having entered into any formal arrangement with creditors and there was no record of any county court judgement.

It isn't unusual for applicants for this type of high cost loan to have a credit history showing other borrowing or even sometimes an impaired credit record – and these things wouldn't necessarily be reasons to prompt a responsible lender to decline a loan application that otherwise looked affordable.

I'm mindful that with this loan, Mr R would need to spend around a third of his verified take home pay paying for unsecured credit, which I think was a large portion of his income to commit on clearing debt. But it looked like he had some flexibility in his finances as he had declined loan 1 after successfully applying for it, and he was now taking out a smaller loan. His credit report didn't suggest Mr R was over-stretched at the bank. He had taken

responsibility for restructuring the payments he owed on the account he'd agreed an arrangement to pay. Mr R had given a plausible reason for needing extra money. Thinking about all these things, and also bearing in mind the relatively small loan amount and the loan term, I think the checks were enough for Loans 2 Go to agree to lend loan 2 and the information Loans 2 Go had gathered reasonably supported its lending decision.

So I'm not planning on upholding Mr R's complaint about loan 2.

I agree with our adjudicator that loan 3 shouldn't have been provided. I'll explain why.

Loans 2 Go asked Mr R to update his income and expenditure information and repeated the checks it carried out previously to verify his income and ensure it was aware of Mr R's up to date credit situation.

Mr R was applying to Loans 2 Go to top up his borrowing – in other words, he would use part of the loan balance to clear what he owed on loan 2 and the rest to provide him with extra money. No loan purpose was recorded and, as far as I can see from the lender's notes, it didn't ask him about this. So I don't think Loans 2 Go knew why Mr R needed this extra money.

And I think it's fair to say that the credit checks Loans 2 Go did for this loan now showed signs that Mr R was having trouble managing money problems and needing to borrow again to plug the gap in his finances caused by paying for his debt.

Mr R had recently repaid the short term credit account he'd previously been in an arrangement to pay. But Loans 2 Go could see he was now four payments in arrears on his credit card and an arrangement to pay that account appeared to have broken down.

The credit checks Loans 2 Go obtained are confusing. It *looked like* Mr R had taken out another new loan around the same time as he'd taken loan 2 which purportedly cost him £114 per *week*, and he was still paying other loans which cost him around £342 per month. But looking at the loan balance shown, this appears to reflect the amount Mr R owed on loan 2 around the time this information was reported. And the *weekly* payments for loan 2 were equivalent to a *monthly* repayment of approximately £114. Errors do appear from time to time in credit reports and I think this information may actually refer to loan 2 - which notably doesn't seem to be reported anywhere else on the credit report.

Nevertheless, even if I am right about this, I still think Loans 2 Go should have been concerned to see that the information in front of it suggested that with loan 3, Mr R would still need to pay a significant amount of his pay towards servicing his credit commitments. As a responsible lender, I think it should've realised that a loan which required Mr R to make debt repayments at this level for the next 18 months seriously risked not being sustainably affordable given that his overall financial situation appeared to have deteriorated since he took out loan 2. The fact that some of Mr R's other active credit accounts showed up to date payments and his bank accounts appeared to be well managed wasn't enough in my view to address the proper concern I think Loans 2 Go should've felt about continuing to lend to Mr R, given the indications that this hadn't proved sustainable for him. And so I don't think Loans 2 Go should've provided this loan.

I appreciate that my provisional decision overall may disappoint Mr R. But I hope that setting out the reasons as I've done will help explain how I've reached my decision. And I hope that with the more detailed explanation I have provided Loans 2 Go will reconsider its position in relation to loan 3 and agree with me that it's fair to uphold Mr R's complaint about this loan. “

What the parties said in response to my provisional decision

I have heard nothing further from Mr R.

Loans 2 Go confirmed it had nothing further to add and said it would await my final decision.

As we have now reached the deadline for responses to my provisional decision, I think it's fair for me to proceed with my review of Mr R's complaint.

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'd like to thank both parties for all the information that has been provided about this matter and Loans 2 Go for responding to my provisional decision. Given that I've not received any further evidence or comment that changes my mind about this complaint, I confirm the conclusions I reached in my provisional decision.

Putting things right

Our adjudicator didn't recommend that Loans 2 Go should pay any additional redress. Mr R hasn't commented on that and I haven't seen anything which makes me think Loans 2 Go acted unfairly towards Mr R in any other way. So I'm not awarding any additional redress.

And I think it is fair and reasonable for Mr R to repay the capital amount that he borrowed when he took out loan 3, 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 and that's unfair. In line with this Service's approach, Mr R shouldn't repay more than the capital amount he borrowed.

So, Loans 2 Go should do the following:

- add up the total amount of money Mr R received as a result of having been given loan 3. The repayments Mr R made should be deducted from this amount.
- If this results in Mr R 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 R.
- Whilst it's fair that Mr R'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 Loans 2 Go should remove any negative information recorded on Mr R's credit file regarding loan 3.

*HM Revenue & Customs requires Loans 2 Go to deduct tax from this interest. Loans 2 Go should give Mr R a certificate showing how much tax has been deducted if he asks for one.

My final decision

I uphold Mr R's complaint about loan 3 and Loans 2 Go Limited should take the steps I've set out above to put things right.

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

Susan Webb
Ombudsman