DRN-3487596

The complaint

Miss M complained that Loans 2 Go Limited lent to her irresponsibly and provided her with a loan that was unaffordable.

What happened

In May 2019, Miss M had arranged to borrow £750 from Loans 2 Go. That loan was cancelled the same day it was arranged so Miss M didn't incur any costs and it isn't being complained about.

But Miss M felt that, due to her credit record, Loans 2 Go shouldn't have provided a further loan she applied for and she said it didn't properly check affordability. Miss M told us she had an ongoing gambling problem at the time and Loans 2 Go would've seen this if it had asked for her bank statements.

The main details of this loan are as follows:

Date opened	Loan status	Loan amount	Instalments	Highest Repayment
29/9/2021	Outstanding	£3,000	24 months	£362

One of our adjudicators looked into the complaint. He didn't think Loans 2 Go should have provided Miss M with this loan and so he upheld the complaint and set out the steps Loans 2 Go should take to put things right.

Loans 2 Go didn't agree with the adjudicator's assessment. It mainly said it didn't think that the results of its credit report were sufficient to suggest that further checks were necessary and its checks were proportionate.

Loans 2 Go asked for an ombudsman to review the complaint. So 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.

There are some key questions I need to consider in order to decide what's fair and reasonable in the circumstances of this particular complaint:

- Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Miss M would be able to repay the loan in a sustainable way? If so, did Loans 2 Go make a fair lending decision?
- If not, what would reasonable and proportionate checks have shown at the time?
- Did Loans 2 Go act unfairly or unreasonably in some other way?

Before agreeing to lend, lenders must work out if a borrower can 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 lender must take reasonable steps to satisfy itself that the borrower can sustainably repay the loan – in other words, without needing to borrow elsewhere.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. For example, when thinking about what a borrower has left to spend on a new loan after paying other expenses, as well as taking into account the loan amount, the cost of the repayments and how long the loan is for, a proportionate check might mean a lender should also 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 looked affordable, a lender still needed to think about whether there was 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 more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:
- the lower a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income)
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income)
- the longer the period of time a borrower will be indebted (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss M's complaint.

Loans 2 Go asked Miss M about her income and expenditure and did some credit checks – which it has sent me. Loans 2 Go hasn't explained in detail how it worked out its affordability calculation but I've taken into account the information Loans 2 Go gathered from Miss M and noted that it did its own background checks to verify Miss M's income. I think it's fair to say that its affordability assessment suggested that Miss M had ample disposable income after taking into account her monthly expenditure and it appeared that she should have been able to afford the monthly repayments for this loan.

But, given what it saw in the credit report it acquired showing details of Miss M's credit history, I think our adjudicator was right to be concerned about Loans 2 Go making its lending decision without doing more in-depth checks or taking steps to verify the information it was relying on.

I say this because:

- Miss M was signing up to make the loan repayments for the next 24 months. I think that was a long enough loan term to go beyond what would be a reasonably foreseeable period to expect complete stability in her finances
- Loans 2 Go saw information showing that within the last 30 months Miss M had evidently struggled to repay a previous loan and the lender had closed her account so she had a default balance of £3,503 showing in her credit history. This wasn't explained by anything Loans 2 Go had seen and it hasn't shown me it asked about how this had come about. So I don't think it was reasonable for Loans 2 Go to assume that Miss M's financial difficulty was behind her or that the same money problems wouldn't arise again
- Loans 2 Go also saw that Miss M was overdrawn on a current account by an amount equivalent to almost a full month's verified salary – so it didn't seem likely that she would be able to return the account to a positive balance and maintain her account in credit unless there was some significant change in her financial situation.

So, I don't think Loans 2 Go was able to be satisfied on the information it had in front of it that it could safely conclude that its loan would be sustainably affordable for Miss M.

I think it would have been proportionate for Loans 2 Go to have taken further steps to independently verify the true state of Miss M's finances and it needed to do more in-depth checks to ensure it properly understood her financial situation before agreeing to provide this loan.

I've looked at what I think proportionate checks would likely have shown. Miss M has provided her bank statements so I've looked through these to see what Loans 2 Go was likely to have found out. To be clear, I'm not suggesting the lender should necessarily have done this. But, in the absence of other evidence, I think these give a reasonable guide as to Miss M's finances at the time.

And had Loans 2 Go looked in depth at Miss M's finances it would likely have seen that she was facing serious problems managing her money.

I think it would have learned that Miss M was consistently overdrawn in the months running up to her applying for this loan – often approaching her £2,000 overdraft limit. She was repaying multiple other lenders of high cost credit as well as borrowing from family members and she was regularly spending significant amounts on what appear to be gambling transactions.

So I don't think it was reasonable for Loans 2 Go to conclude that it was likely Miss M would be able to repay this loan in a sustainable way.

For these reasons, I am upholding Miss M's complaint that she should not have been given the loan.

Putting things right

I haven't seen anything which makes me think that Loans 2 Go acted unfairly or unreasonably towards Miss M in some other way.

So I haven't identified any reason for me to award any additional redress.

I think it is fair and reasonable for Miss M to repay the capital amount that she borrowed, because she had the benefit of that lending. But she has paid extra for lending that should not have been provided to her.

In line with this Service's approach, Miss M shouldn't repay more than the capital amount she borrowed.

If Loans 2 Go has sold any outstanding debt it should buy this back if able to do so and then take the following steps.

Otherwise, Loans 2 Go should liaise with the new debt owner to achieve the results outlined below and do the following:

- add up the total amount of money Miss M received as a result of having been given this loan. The repayments Miss M made should be deducted from this amount.
- If this results in Miss M having paid more than she 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 Miss M keeping in mind the need to treat her positively and sympathetically if she needs further time to pay. Loans 2 Go shouldn't pursue outstanding balances made up of principal already written-off.
- remove any negative information recorded on Miss M's credit file regarding the loan.

*HM Revenue & Customs requires Loans 2 Go to deduct tax from this interest. Loans 2 Go should give Miss M a certificate showing how much tax has been deducted if she 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 Miss M.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 27 June 2022.

Susan Webb
Ombudsman