DRN-3559767

The complaint

Mrs D complains 1Plus1 Loans Limited lent to her irresponsibly.

What happened

In May 2013 Mrs D applied for, and was given a loan for £3,000, which was repayable over a period of 36 months. The repayments were around £155 a month, and in total Mrs D agreed to pay back just over £5,500 over the three years, once interest was added. The reason given for taking out the loan was to pay for a wedding.

In August 2014 Mrs D applied for, and was given a new loan for £5,000, which was repayable over a period of 60 months. The repayments were around £180 a month, and in total Mrs D agreed to pay back just over £10,700. This loan was used to repay the previous loan, as well as consolidate some other debts Mrs D had. It was repaid in August 2019.

Mrs D says 1Plus1 Loans shouldn't have given her the loans because they weren't affordable. 1Plus1 Loans says it did check whether the loans were affordable, and Mrs D had enough disposable income to make the loan repayments.

Our investigator thought Mrs D's complaint should be upheld. 1Plus1 Loans disagreed, so this complaint has been passed to me to make 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 approach to complaints about unaffordable and irresponsible lending on our website. And I've taken this into account in deciding Mrs D's complaint.

1Plus1 Loans needed to take reasonable steps to ensure that it didn't lend to Mrs D irresponsibly. It should have completed reasonable and proportionate checks to satisfy itself that Mrs D would be able to pay the loans in a sustainable way.

Loan 1

1Plus1 Loans did complete some checks to see if the loan was affordable. But I agree with the investigator that given the total cost of repaying the money Mrs D was borrowing, the information she had provided about her income and expenditure, together with the information on her credit file, 1Plus1 Loans checks weren't good enough.

1Plus1 Loans asked for some information from Mrs D before it approved the loan. It asked for details of her income and expenditure and verified these with third parties. It reviewed her credit file to understand her credit history and existing commitments. It also asked about the purpose of the loan, which was for a wedding. From these checks combined 1Plus1 Loans concluded that Mrs D had enough monthly disposable income to afford the loan. But I don't think it reacted appropriately to the data it gathered when it made its lending decision. I'll explain why.

Based on 1Plus1 Loans' checks, it concluded Mrs D had a monthly disposable income of around £230. This included a buffer of £200 on top of her recorded expenses but didn't include the cost of the new loan. And on the face of it, this might suggest she did have enough to afford the monthly repayment. But the information 1Plus1 Loans had from Mrs D's credit file, shows it was unlikely she did have this amount of disposable income.

The credit file showed Mrs D had four accounts that had been defaulted in the preceding six months, including one that had defaulted just three months earlier. 1Plus1 Loans recorded that Mrs D was making payments towards the outstanding balances on these accounts each month.

The fact Mrs D had defaults recorded on her credit file, wouldn't necessarily be enough on its own to say she couldn't afford the new loan. I take 1Plus1 Loans' point that given the nature of the loans it offers, most of its customers will have a less than perfect credit score. But recent defaults, on accounts with relatively low balances, would indicate Mrs D probably didn't have the level of disposable income 1Plus1 Loans concluded she had – otherwise she's unlikely to have ended up with the defaults in the first place.

Mrs D also had another two loan accounts, including one with a significant outstanding balance. The other had a much smaller balance, but Mrs D was in arrears with her repayments on this account. Again, this would suggest Mrs D was unlikely to have the level of disposable income 1Plus1 Loans' checks showed she had. In fact, it shows she was already struggling to afford to repay the debt she had, and that was before the added expenditure of the repayments towards the new loan she was taking out.

While it would be helpful to have more information about Mrs D's financial situation in 2013, by way of bank statements for example, I don't think this is needed for me to make a fair decision. Based on the information we do have – and that 1Plus1 Loans had at the time – I think there's enough to say Mrs D wasn't in a position to take on any more debt. So I think it was wrong of 1Plus1 Loans to give the loan to Mrs D.

Loan 2

Again, 1Plus1 Loans did complete some checks to see if the second loan was affordable. In addition to the checks it did for the first loan, it also got a copy of Mrs D's recent bank statement to verify her income. From these checks combined 1Plus1 Loans again concluded that Mrs D had enough monthly disposable income to afford the loan. But again, I don't think it reacted appropriately to the data it gathered when it made its lending decision. I'll explain why.

Based on 1Plus1 Loans' checks, it concluded she had a monthly disposable income of around £230. This included a buffer of £200 on top of her recorded expenses but didn't include the cost of the new loan, or payments towards any of the accounts she was repaying with this loan. And on the face of it, this might suggest she did have enough to meet the cost of the monthly repayment. But the information 1Plus1 Loans had from Mrs D's credit file, shows it was unlikely she did have this amount of disposable income.

The credit file now showed Mrs D had six accounts that had been defaulted, including one that had defaulted since she took out the first loan. The outstanding balances for the majority of these, as well as the loan account that was in arrears, had hardly reduced since she took out the previous loan, which would suggest she hadn't been making payments towards them over the last year or so.

1Plus1 Loans has pointed to the fact Mrs D didn't miss any of the repayments on the first loan, to show she had been able to sustainably repay this loan. I disagree. Being able to sustainably repay credit is doing so without undue difficulty, while being able to meet other commitments and without having to borrow further. And the information from the credit file shows Mrs D couldn't do this.

Mrs D's bank statements from the time also suggest she was having difficulties managing her money when she took out the second loan. For example, a number of direct debits had been returned unpaid over the course of the preceding month.

All of this suggests Mrs D was struggling financially when she took out the second loan. And while ordinarily consolidating debts might reduce someone's outgoings, I don't think this was the case for Mrs D. As I've said, it doesn't look like she had been making payments towards the debts that were being consolidated, so she wasn't really reducing her outgoings by settling these accounts.

As the information available to 1Plus1 Loans showed Mrs D hadn't been able to sustainably repay the first loan, I don't think it should have given her the second loan. Mrs D's outgoings weren't going to reduce in a way she'd be likely to be able to sustainably make the repayments on the second loan, with a higher monthly repayment.

Putting things right

When I find a business has done something wrong, I'd normally direct that business – as far as it's reasonably practicable – to put the complainant in the position they would be in now if the mistakes it made hadn't happened. In this case, that would mean putting Mrs D in the position she would now be in if she hadn't been given the loans in question. However, this isn't straightforward when the complaint is about unaffordable lending.

Mrs D was given the loans and she used the money. In these circumstances, I can't undo what's already been done. So, it isn't possible to put Mrs D back in the position she would be in if she hadn't been given the loans in the first place. Instead, I must consider another way of putting things right fairly and reasonably given the circumstances of this complaint.

Having done so, I think 1Plus1 Loans should:

a) Remove all interest, fees and charges applied to the loans from the outset. The payments Mrs D made should then be deducted from the new starting balance. If the payments Mrs D has made total more than the amount she was originally lent, then any surplus should be treated as overpayments and refunded to her.

b) Add 8% simple interest* calculated on any overpayments made, from the date they were paid by Mrs D to the date the complaint is settled.

c) Remove any adverse information recorded on Mrs D's credit file as a result of these loans.

*HM Revenue & Customs requires 1Plus1 Loans to deduct tax from this interest. 1Plus1 Loans should give Mrs D a certificate showing how much tax it's deducted, if she asks for one.

My final decision

For the reasons I've explained, I'm upholding Mrs D's complaint. 1Plus1 Loans Limited should put things right for Mrs D in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs D to accept or reject my decision before 16 September 2022.

Claire Allison
Ombudsman