

The complaint

Ms S complains 1Plus1 Loans Limited lent to her irresponsibly.

What happened

In February 2014 Ms S 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 Ms S agreed to pay back just over £5,500 over the three years, once interest was added.

Ms S says 1Plus1 Loans shouldn't have given her the loan because it wasn't affordable. 1Plus1 Loans says it did check whether the loan was affordable, and Ms S had enough disposable income to make the loan repayments.

Our investigator thought Ms S'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 Ms S's complaint.

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

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 Ms S 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 Ms S 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 Ms S said was for "bits and bobs". From these checks combined 1Plus1 Loans concluded that Ms S 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 Ms S 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. Having listened to the call Ms S had with 1Plus1 Loans, it seems it didn't take into account the costs Ms S told them about for her mobile phone, which was about £34 a month. So that already takes her recorded disposable income down to less than £200.

On the face of it, even factoring in the mobile phone costs, this might suggest she did have enough to afford the monthly repayment. But the information 1Plus1 Loans had from Ms S's credit file and the conversation it had with her, strongly suggests it was unlikely she did have this amount of disposable income.

The credit file showed Ms S had eight accounts that had been defaulted, the most recent about 18 months earlier. The total outstanding balance on these accounts was nearly £4,000. Ms S confirmed in the conversation with 1Plus1 Loans she wasn't making any payments towards these debts. It also showed she had two active loans totalling around £4,800 and an active catalogue shopping account with an outstanding balance of about £150. She was three months in arrears with her payments on this account. During the call with 1Plus1 Loans, Ms S also mentioned taking out two payday loans in recent months.

The fact Ms S had defaults recorded on her credit file wouldn't be enough on its own to say she couldn't afford the new loan. And in this case, the defaults weren't that recent. 1Plus1 Loans factored in the cost of repaying the balances of the defaulted accounts in its affordability calculation – it added £120 to her outgoings. It's right it did this as Ms S still owed the money and should have been repaying it.

But it knew Ms S wasn't actually making any payments towards these accounts, which if the information it had about Ms S's income and outgoings was accurate, would mean she had about £550 disposable income each month (before she took out this loan). If this was accurate, it raises the questions – why had she not been making the small repayment for her catalogue shopping account? And why had she needed to take out payday loans in recent times? This would suggest she didn't have the level of disposable income 1Plus1 Loans concluded she had.

Ms S already had outstanding debt totalling about £8,800 – a large part of this 1Plus1 Loans knew she wasn't repaying. All the information available shows Ms S 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 Ms S's financial situation in 2014, 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 Ms S 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 Ms S.

1Plus1 Loans has made the point that Ms S made all her repayments. But it doesn't know how she managed to do this, so I don't think this shows the loan was affordable.

Putting things right

When I find that 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 Ms S in the position she would now be in if she hadn't been given the loan in question. However, this isn't straightforward when the complaint is about unaffordable lending.

Ms S was given the loan and she used the money. In these circumstances, I can't undo what's already been done. So, it isn't possible to put Ms S back in the position she would be in if she hadn't been given the loan 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 Ms S made should then be deducted from the new starting balance. If the payments Ms S 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 Ms S to the date the complaint is settled.
- c) Remove any adverse information recorded on Ms S's credit file as a result of this loan.

*HM Revenue & Customs requires 1Plus1 Loans to deduct tax from this interest. 1Plus1 Loans should give Ms S 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 Ms S's complaint. 1Plus1 Loans Limited should put things right for Ms S in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 27 September 2022.

Claire Allison
Ombudsman