DRN-3584249

The complaint

Mrs N has complained about loans granted to her by Loans 2 Go Limited ("L2G"). She says that L2G shouldn't have agreed to the loans because they were unaffordable for her.

Mrs N has brought her complaint to us via a claims management company but for simplicity I will refer to her throughout.

What happened

L2G agreed two loans for Mrs N in 2016, one in April and a second in September. The first loan was repaid with some of the capital from the second loan. I understand Mrs N had taken out earlier loans with L2G: one in February 2013, a second that September and a third in August 2015. My decision deals with the two loans taken out in 2016 and some of the information L2G provided about them is shown in the table below (all figures rounded to the nearest pound).

Loan	Start date	End date	Principal	Monthly repayments	Term (months)	Total repayable
1	06/04/2016	05/09/2016	£1,200	£165	36	£5,952
2	05/09/2016	23/08/2019	£1,700	£234	36	£8,432

These two were 'log book' loans, in other words they were granted on the basis that Mrs N provided L2G with a bill of sale for her car. This meant that if Mrs N didn't make her loan repayments L2G could potentially recoup any losses through the sale of her vehicle.

Mrs N says that L2G didn't look into her finances properly before lending to her and, had it done so, it would have seen that the loans were unaffordable for her and that she was having problems managing her money. She says she had a lot of existing debt, was borrowing from several other lenders and wasn't meeting her repayments on time.

L2G says it conducted an affordability check and took into account Mrs N's credit commitments and her monthly expenditure. The loans were issued when it confirmed beyond reasonable doubt that they would be affordable for her and would not put her in a more difficult financial position.

One of our investigators looked into what happened when each of Mrs N's loans were agreed. They found that L2G should have seen from the information it had that Mrs N wouldn't be able to afford the repayments for these loans. So they recommended that her complaint be upheld.

L2G didn't agree with this recommendation and asked for the complaint to be reviewed.

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.

Having done so, I'm upholding Mrs N's complaint about her loans. I appreciate this will be very disappointing for L2G and I hope my explanation below makes it clear why I have come to this conclusion.

L2G will be familiar with the regulations in place at the time so I will summarise its main obligations. L2G needed to check that Mrs N could afford to meet her repayments without difficulty before agreeing each loan. In other words, it needed to check that she could meet her repayments out of her usual means without having to borrow further and without experiencing financial difficulty or other adverse consequences. The necessary checks needed to take into account both the nature of the credit (amount, term etc.) and Mrs N's particular circumstances.

The overarching requirement was that L2G needed to pay due regard to Mrs N's interests and treat her fairly. The Consumer Credit (CONC) handbook paragraph 2.2.2G gave an example of contravening this requirement as 'targeting customers with regulated credit agreements which are unsuitable for them by virtue of their indebtedness, poor credit history, age, health, disability or any other reason.'

With this in mind, my main considerations are did L2G complete reasonable and proportionate checks when assessing Mrs N's applications to satisfy itself that she would be able to make her repayments without experiencing adverse consequences? If not, what would reasonable and proportionate checks have shown and, ultimately, did L2G make fair lending decisions with the information it had gathered?

Mrs N told L2G that her net monthly income was about £1,173 including £82 a month in benefits when she applied for her first loan,. She said her monthly living costs came to £535 and her monthly credit commitments came to £107, a total of £642. Mrs N also said she was unaware of any county court judgements (CCJs), bankruptcy or arrangements with other creditors. L2G checked Mrs N's payslips and her credit file and has provided copies of both.

L2G said in its final response to Mrs N that it used national statistical datasets to check expenditure information, and where there was a difference between what the customer said and its estimate, it used the higher figure. L2G told us that it didn't see any clear indications that Mrs N was in financial difficulty when it carried out its assessments and, even though Mrs N had open commitments, it was evident from her credit file that she was managing these properly and keeping on top of her payments. L2G also said that there was no adverse information on her file in terms of an inability to handle her credit commitments.

In some cases, I might consider that these checks were proportionate and I've gone on to review the information L2G gathered. The payslip from March 2016 confirmed Mrs N's wages, however the credit report shows that:

- Mrs N's total debt was over £10,000 most of which was in default and owned by debt collection agencies;
- She had 31 active accounts, 10 of which had been opened within the last six months;
- She'd had two accounts marked as delinquent and one as defaulted all in the last 12 months;
- She'd taken out a £5,000 loan in August 2014 with monthly payments of £197, although it seems she was making payments of varying amounts towards this.

I don't agree with L2G's view of this information and I think it ought to have raised serious concerns about Mrs N's ability to manage further debt. Contrary to what she'd said it seems Mrs N had an active CCJ. She also had existing debts amounting to about half of her annual salary and wasn't managing to repay these. Mrs N said the purpose of the loan was for a holiday so it seems to me that agreeing to this would commit Mrs N to spending almost 40% of her income on debt each month, and this doesn't include any payments towards the defaulted debts she had or her CCJ.

Altogether, I think L2G should have seen that Mrs N was having recent problems repaying her existing debts and so it was likely she'd have difficulty repaying further credit. I don't think L2G should have agreed credit for Mrs N under these circumstances and so I think it was irresponsible to have done so.

About five months later, Mrs N applied for another loan. As before, L2G asked Mrs N about her income and expenditure and checked her payslips and some of her bank statements. Again, in some cases, I might consider these checks to be proportionate and I've reviewed the information L2G gathered.

L2G recorded Mrs N's income as about £1,406 including benefits and 'other' income, and her expenses as £822, including £172 of financial commitments (which I don't think includes her existing loan from L2G or her August 2014 loan mentioned above). Mrs N's payslips show that her income was below £1,000 for two of the three months due to a number of deductions, including an attachment of earnings for £257. It seems to me that Mrs N was spending at least a third of her means on repaying some of her existing debts and agreeing this loan for her potentially committed her to spending almost half her income on debt.

Mrs N's bank statements should have raised further concerns for L2G. The copies L2G has provided show payments amounting to £65 a month to eight different debt collection companies, and weekly payments of £54 and £66 to two high cost lenders, over £500 a month. I think L2G had enough information to show that Mrs N was overcommitted and that further lending was irresponsible. I don't think any further enquiry would have reassured L2G that she would be able to afford repayments for this loan in a sustainable manner, for example, I can see from a copy of the credit file Mrs N provided that she'd taken on further credit since her April loan.

In summary, L2G should have seen from the information it had when Mrs N applied for her loans in 2016, that she would not be able to meet her repayments for them in a sustainable manner, given her existing debts and how she was managing these. It shouldn't have agreed to lend to her under these circumstances and now needs to put things right for her.

Putting things right

I think it's fair that Mrs N repays the principal she borrowed on her loans as she's had the use of this money. However, I don't think Mrs N should be liable for any interest or charges on these amounts or have her credit record adversely impacted.

In order to put things right for Mrs N, L2G needs to:

a) Refund to Mrs N all payments she made above the principal amounts she borrowed for the two loans taken out in 2016;
b) Add 8% simple interest per annum to these overpayments from the date they were paid to the date of refund; and
c) Remove any adverse information about these loans from Mrs N's credit file.

*HM Revenue & Customs requires L2G to deduct tax from this interest. It should give Mrs N a certificate showing how much tax it has deducted if she asks for one.

My final decision

I'm upholding Mrs N's complaint about Loans 2 Go Limited for the reasons I've explained above and require it to put things right as I've set out.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs N to accept or reject my decision before 18 August 2022.

Michelle Boundy
Ombudsman