

The complaint

Mr B complains 1Plus1 Loans Limited lent to him irresponsibly.

What happened

In July 2016 Mr B applied for, and was given a loan for £5,000, which was repayable over a period of 60 months. The repayments were around £180 a month, and in total Mr B agreed to pay back about £10,750 over the five years, once interest was added.

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

Our investigator thought Mr B'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 Mr B's complaint.

1Plus1 Loans needed to take reasonable steps to ensure that it didn't lend to Mr B irresponsibly. It should have completed reasonable and proportionate checks to satisfy itself that Mr B 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 Mr B was borrowing, the information he had provided about his income and expenditure, together with the information on his credit file, 1Plus1 Loans checks weren't good enough.

1Plus1 Loans asked for some information from Mr B before it approved the loan. It asked for details of his income and got payslips to verify this. It asked him for details of his expenditure and verified this with third parties. It reviewed his credit file to understand his credit history and existing commitments. It also asked about the purpose of the loan, which Mr B said was for debt consolidation and what was left over would be used towards his wedding. From these checks combined 1Plus1 Loans concluded that Mr B 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 Mr B had a monthly disposable income of just over £500. This didn't include any payments towards the debts he was consolidating or the new loan. And on the face of it, this might suggest he did have enough to afford the monthly repayment. But the information 1Plus1 Loans had from Mr B's credit file, shows this was unlikely.

The credit file showed Mr B had three active loan accounts with total outstanding balances of around £3,400, three credit or store cards with total outstanding balances of around £1,600 and two mobile phone accounts with total outstanding balances of around £270. In total his outgoings in relation to credit look to have been around £380 a month before any accounts were consolidated. Mr B was behind with his payments towards one of the loans and one of the mobile phone accounts. So there were some signs Mr B was struggling financially.

Mr B was consolidating some of his outstanding debts – including the two accounts where he was behind with his payments. Based on the information 1Plus1 Loans used to decide the loan was affordable, Mr B's disposable income *before* he took out the loan and consolidated the debts would have been about £370. If that were the true picture, it would suggest he should have had no difficulties meeting his existing credit commitments. But based on the information in his credit file he couldn't afford these. This throws doubt on whether the information he'd given about his outgoings was accurate. So I would have expected 1Plus1 Loans to do some extra checks to verify the information.

The credit file shows Mr B had taken out a loan with another business about four months earlier. And around the same time he started falling behind with his payments towards one of the other loans. So it looks like he wasn't able to afford to make the payments towards them both.

As I've said, 1Plus1 Loans needed to check Mr B would be able to pay the loan sustainably. 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. By taking out the loan with 1Plus1 Loans, Mr B was borrowing further to repay the credit he already had and couldn't afford. Giving someone who is already in financial difficulties additional credit, is unlikely to be considered responsible.

I appreciate the new loan did decrease Mr B's monthly outgoings by about £50, but it increased his overall indebtedness, as he was borrowing more than he needed to consolidate the debts. And the reason it reduced his outgoings was because it had been taken over a longer term, meaning he'd be paying more interest and be indebted for longer. I think the costs of consolidating some of his debts, and the disadvantages of prolonging the time Mr B would likely be indebted, significantly outweighed any perceived benefit. From the information 1Plus1 Loans had, I think it ought to have recognised that taking further lending was unlikely to help Mr B make inroads into his overall existing debt position.

I also note Mr B's credit file showed he had a previous loan account that had been defaulted some years earlier. This alone wouldn't be enough to say 1Plus1 Loans shouldn't have given him the new loan. But contrary to what 1Plus1 Loans has said, this debt likely was still recoverable and some payment towards it should have been included when Mr B's outgoings were calculated. It's unlikely this would have made a significant difference but increases the likelihood the loan Mr B was given by 1Plus1 Loans wasn't affordable.

While it would be helpful to have more information about Mr B's financial situation in 2016, 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 the loan more likely than not wasn't affordable. So I think it was wrong of 1Plus1 Loans to give the loan to Mr B.

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 Mr B in the position he would now be in if he hadn't been given the loan in question. However, this isn't straightforward when the complaint is about unaffordable lending.

Mr B was given the loan and he used the money. In these circumstances, I can't undo what's already been done. So, it isn't possible to put Mr B back in the position he would be in if he 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 Mr B made should then be deducted from the new starting balance. If the payments Mr B has made total more than the amount he was originally lent, then any surplus should be treated as overpayments and refunded to him.
- b) Add 8% simple interest* calculated on any overpayments made, from the date they were paid by Mr B to the date the complaint is settled.
- c) Remove any adverse information recorded on Mr B'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 Mr B a certificate showing how much tax it's deducted, if he asks for one.

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 13 October 2022.

Claire Allison
Ombudsman