DRN-3624144

The complaint

Mr S has complained that Loans 2 Go Limited was irresponsible in lending to him.

What happened

Mr S was provided with the following loans by Loans 2 Go:

	Date taken	Amount	Term	Monthly repayment	Loan Status
Loan one	17/07/2017	£500	18 months	£113.28	Settled Early
Loan two	02/08/2017	£500	18 months	£113.28	Debt Sold

Mr S repaid loan one later in the same month. With regard to loan two, he struggled to make the repayments from the outset. He told Loans 2 Go that was because he was no longer able to work overtime.

In 2021 Mr S complained that Loans 2 Go hadn't carried out proper checks before lending to him.

Loans 2 Go looked into his complaint. It didn't think it had done anything wrong but said it would write off the outstanding balance of £183.14 in recognition of the fact that Mr S's circumstances had changed.

Mr S referred his complaint to us.

An ombudsman at this service issued a provisional decision. She said that it wasn't appropriate for Loans 2 Go to use a net monthly income based on a high proportion of Mr S's overtime payments in its affordability calculations.

Loans 2 Go accepted the ombudsman's provisional findings. Mr S hasn't responded, but I assume he has no further comment to make.

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.

The following were the previous ombudsman's findings:

"*We've set out our general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website. Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Mr S's complaint. These two questions are:*

1. Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Mr S would be able to repay the loans without experiencing significant adverse consequences?
- *If so, did it make a fair lending decision?*
- *If not, would those checks have shown that Mr S would've been able to do so?*

2. Did Loans 2 Go act unfairly or unreasonably in some other way?

The rules and regulations in place required Loans 2 Go to carry out a reasonable and proportionate assessment of Mr S's ability to make the repayments under the loan agreements. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower-focussed" – so Loans 2 Go had to think about whether repaying the loan would be sustainable. In practice this meant that the business had to ensure that making the repayments on the loans wouldn't cause Mr S undue difficulty or significant adverse consequences. That means he should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation.

In other words, it wasn't enough for Loans 2 Go to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr S. Checks also had to be "proportionate" to the specific circumstances of the loan application.

In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:

- *the lower a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);*
- *the higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);*
- *the greater the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).*

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

Loans 2 Go carried out a credit search before making the first loan. I assume it used the same credit search for the second loan a few weeks later. It showed that Mr S had recently taken out a loan of £4,170. I think Loans 2 Go should have enquired why he needed another loan within such a short time. Based on the credit search Loans 2 Go calculated that Mr S was paying about £758.50 a month in respect of his credit commitments. The search also *revealed some historic defaults. The value of the account in default was £384 and it dated from about 18 months previously.*

Loans 2 Go verified Mr S's income by checking three payslips. As a result, it was satisfied that he had an average net income of £5,256.44 a month. Following a review of the application, Loans 2 Go calculated that Mr S's outgoings were £3,380.50. This suggested that there would be more than enough disposable income to be able to afford the monthly repayments Mr S was committed to making of £113.28.

I think Loans 2 Go's checks were proportionate given the size and term of the loans. But I don't think Loans 2 Go responded appropriately to the information revealed by its checks. That's because Loans 2 Go's calculations of affordability were based on Mr S receiving overtime pay which wasn't guaranteed. Loans 2 Go saw three of Mr S's payslips for April to June 2017. The April payslip showed a gross monthly income of £8.300.50 and this included overtime pay of £2,901.80. The May payslip showed a gross monthly income of £7,473.20 and this included overtime pay of £1,992.81. Similarly in June his gross pay was £8,782.75 including overtime pay of £3,286.38. Broadly speaking without overtime Mr S's net monthly income would have been about a third less which works out about £3,469. That wouldn't have left him with enough disposable income to make his loan repayments to Loans 2 Go.

I can see that Loans 2 Go ought to have been aware from the payslips that Mr S's overtime was variable. In these circumstances, I think it ought to have appreciated that a month without overtime, or even with greatly reduced overtime, would make it difficult for Mr S to meet his loan repayments. I don't think it was appropriate for Loans 2 Go to use a net monthly income based on a high proportion of overtime payments in its affordability calculations.

I've also thought about whether Loans 2 Go acted unfairly in some other way and I haven't seen any evidence that it did."

I note that neither party has made any further comments and that Loans 2 Go accepted the provisional findings. I have carefully considered the matter and agree with my ombudsman colleague's provisional findings. I'm happy to adopt them as my own findings. The findings are now final and form part of this final decision.

Putting things right

To put things right I think Loans 2 Go should:

- Remove all interest, fees and charges applied to the loans.
- Treat any payments made by Mr S as payments towards the capital amount.
- If Mr S has paid more than the capital then any overpayments should be refunded to him with 8%* simple interest from the date they were paid to the date of settlement.
- But if there's still an outstanding balance, Loans 2 Go should come to a reasonable repayment plan with Mr S.
- If Loans 2 Go has sold the outstanding debt to a third-party it should do what it can to buy it back - if it can't, it can't deduct any outstanding balance from the redress and it then it needs to work with the third-party to bring about the steps above.
- remove any negative information about the loans from Mr S's credit file.

My final decision

I uphold the complaint and require Loans 2 Go Limited to provide the remedy set out under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 30 August 2022.

Ray Lawley
Ombudsman