DRN-3666314

The complaint

Ms O complains that Loans 2 Go Limited (L2G) irresponsibly lent to her.

What happened

L2G provided Ms O with a loan for £500 in July 2020. The loan was repayable at £114.28 per month over a term of 18 months.

Ms O says L2G irresponsibly lent to her.

Our adjudicator looked at the complaint and thought L2G shouldn't've lent to Ms O because proportionate checks would have shown it was unaffordable.

L2G disagreed with the adjudicator and asked for an ombudsman to review the complaint.

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 general approach to complaints about unaffordable and irresponsible lending, including the key rules, guidance and good industry practice, is set out on this services website.

The rules require L2G to carry out a reasonable and proportionate assessment of Ms O's ability to repay the loan.

These checks need to be borrower focussed, so L2G had to think about whether Ms O would be able to sustainably repay the loan. In practice, this means that L2G had to ensure that making the loan repayments wouldn't cause Ms o undue financial difficulty. This means she should've been able to meet repayments out of normal income without having to borrow further, and without the repayments having a significant impact on her financial situation.

There are no fixed checks that a business has to carry out. What constitutes a proportionate affordability check will depend on a number of factors, including the circumstances of the consumer (their financial history, current financial situation and any indicators of financial difficulty), the total amount of the loan and the frequency and amount of repayments.

In general, I'd expect a lender to carry out more detailed checks the greater the risk to the consumer of not being able to repay the loan sustainably. So, for example, I'd expect a lender to carry out more detailed checks where:

The lower a consumer's income (reflecting that it could be more difficult to make any loan repayments 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 payment from a particular level of income)

The longer the period of time a borrower would be indebted (reflecting the fact that the total cost of credit was likely to be greater and the borrower was required to make repayments for an extended period)

Bearing all of this in mind with regard to Ms O's case, I've considered whether L2G completed reasonable and proportionate checks when assessing Ms O's loan application to satisfy itself that Ms O would be able to sustainably repay the loan, and whether L2G made a fair lending decision.

L2G gathered information about Ms O's income and expenditure and verified this using third party tools. L2G checked Ms O's expenditure to ensure it was reasonable based on national statistics. It also carried out a credit check to understand Ms O's existing monthly credit commitments and credit history. From these checks, L2G concluded that Ms O had enough disposable income for the loan to be affordable.

I think these checks were reasonable and proportionate given the size and term of the loan and the level of repayments. So, I've gone on to consider whether the lending decision was fair.

The credit check L2G completed showed that Ms O had a number of active credit commitments. Although these commitments were being managed by Ms O, they represented a high proportion of her monthly income. In addition, Ms O had a significant overdraft balance on her account. Because of this, I think there was a risk that Ms O wouldn't be able to meet the loan repayments without needing to borrow further. I think L2G ought to have realised that Ms O was unlikely to be able to sustainably repay the loan without having to borrow further, and without the repayments having a significant impact on her financial situation.

Based on the information I've seen, I think the information obtained by L2G should've alerted it to the fact that there was a risk that the loan wasn't affordable for Ms O. Because of this, I don't think the lending decision was fair.

Putting things right

Where I find that a business has done something wrong, I'd normally direct it to put the complainant back in the position they would have been in had the mistake not happened, as fair as is practical.

In this case, this would mean putting Ms O back in the position she would have been in if she hadn't been given the loan. But Mrs O was given the loan and has used the money and made repayments. So, to put things right here, L2G should refund all interest and charges that Ms O has paid on the loan.

Ms O's credit file should accurately reflect her credit history. However, I don't think it's fair that Ms O's credit file should be adversely affected by L2G's decision to lend irresponsibly. L2G should remove any adverse information relating to the loan from Ms O's credit file.

My final decision

My final decision is that I uphold the complaint. To settle the complaint, Loans 2 Go Limited must:

Add up the total amount of money Ms O received as a result of being given the loan. The repayments made should be deducted from this amount.

If this results in Ms O having paid more than she received, any overpayments should be refunded together with 8% simple interest calculated from the date the overpayments were made to the date of settlement

If a capital balance remains outstanding, then L2G should arrange an affordable payment plan with Ms O

HMRC requires L2G to take off tax from the interest. It must give Ms O a certificate showing how much tax has been taken off if she asks for one.

Under the rules of the Financial Ombudsman Service, I’m required to ask Ms O to accept or reject my decision before 10 November 2022.

Emma Davy
Ombudsman