

Complaint

Mr F has complained about loans Loans 2 Go Limited (“L2G”) provided to him. He says the loans were unaffordable.

Background

L2G provided Mr F with an initial loan for £300 in June 2019. The loan had an APR of 1,275.2% and a 78-week term. This meant that the total amount to be repaid of £1,233.96, which included interest, fees and charges of £933.96, was due to be repaid in 78 weekly instalments of £15.82. This loan was settled in full with some of the proceeds from loan 2 in December 2019.

Loan 2 was for £1,000.00 and taken in December 2019. The loan had an APR of 1,275.7% and a 78-week term. This meant that the total amount to be repaid of £4,113.72, which included interest, fees and charges of £1,113.72, was due to be repaid in 78 weekly instalments of £52.74. This loan was settled in full with some of the proceeds from loan 3 in May 2020.

Loan 3 was for £1,742.04 and taken in May 2020. The loan had an APR of 556.3% and a 104-week term. This meant that the total amount to be repaid of £6,884.80, which included interest, fees and charges of £5,142.76, was due to be repaid in 104 weekly instalments of £66.20.

One of our adjudicators looked at this complaint and thought that L2G didn’t act unfairly when providing these loans. Mr F disagreed with our adjudicator and so the case was passed forward for an ombudsman to review the complaint.

My provisional decision of 30 August 2022

I issued a provisional decision – on 30 August 2022 - setting out why I intended to uphold Mr F’s complaint. I won’t copy that decision in full, but I will instead provide a summary of my findings.

I started by saying that we’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And that I had used this approach to help me decide Mr F’s complaint.

I went on to explain that L2G needed to make sure it didn’t lend irresponsibly. In practice, what this meant was that L2G needed to carry out proportionate checks to be able to understand whether Mr F could afford to repay any credit it provided. Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of

it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

I explained that L2G may have argued that the relatively low monthly payments meant that a light touch assessment was proportionate for all of the loans in this case. But I was mindful that Mr F had a low income. And L2G didn't agree with the declaration of income that Mr F provided on any of the occasions that it lent to him. Furthermore, the credit checks it carried out showed Mr F had a history of payday loans and his indebtedness had grown by the time he applied for loans 2 and 3.

So I was persuaded by what Mr F had said about already being in a difficult financial position at the time. And while I accepted that it was possible Mr F's credit file reflected his choices rather than him struggling financially, I added that my experience of these types of cases suggested this was unlikely, I was satisfied that further checks would have been proportionate here.

And I think thought that if L2G had carried out further checks before providing these loans, it would have seen that Mr F was struggling to manage his finances. Indeed, most of his income was being taken up by his existing living costs and repayments to his existing commitments. Mr F's bank statements also showed the real reason for his difficulties too. Equally it was obvious that Mr F was using the funds from loan 2 and 3 to try and cover the hole left in finances by his previous loans.

Bearing all of this in mind, I was satisfied that reasonable and proportionate checks would more likely than not have demonstrated that Mr F would not have been able to make the repayments to these loans without borrowing further and/or suffering undue difficulty. And as that was the case, I found that reasonable and proportionate checks would more likely than not have alerted L2G to the fact that Mr F was in no sort of position to make the payments to these loans without suffering significant adverse consequences.

As L2G provided Mr F with these loans, notwithstanding this, I was minded to conclude that it failed to act fairly and reasonably towards him. Mr F ended up paying interest, fees and charges on loans he shouldn't have been provided with. So I concluded by stating that it was my intention to issue a final decision which found that Mr F had lost out because of what L2G did wrong and that it needed put things right.

Responses to my provisional decision

L2G didn't provide anything further or request any additional time to do so.

Mr F confirmed that he accepted my provisional decision and that he had nothing further to add.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I set out in some detail why I intended to uphold Mr F's complaint. And as neither party has provided any further arguments, I've not been persuaded to alter my conclusions. So I'm still upholding Mr F's complaint. And I remain satisfied that L2G needs to put things right.

Fair compensation – what L2G needs to do to put things right for Mr F

Having thought about everything, I think that it would be fair and reasonable for L2G to put things right for Mr F by:

- refunding all interest, fees and charges Mr F paid on his loans;
- adding interest at 8% per year simple on any refunded payments from the date they were made by Mr F to the date of settlement†
- removing all adverse information about these loans from Mr F's credit file.

† HM Revenue & Customs requires L2G to take off tax from this interest. L2G must give Mr F a certificate showing how much tax it has taken off if he asks for one.

My final decision

For the reasons above and in my provisional decision of 30 August 2022, I'm upholding Mr F's complaint. Loans 2 Go Limited should put things right in the way I've set out above.

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

Jeshen Narayanan
Ombudsman