DRN-3754405

The complaint

Mr W complains through his representative that Loans 2 Go Limited irresponsibly lent him money on high cost loans that he couldn't afford to repay.

What happened

Loans 2 Go provided Mr W with the following loans:

	Date of loan	Amount	Repayment period	Monthly instalment	Date repaid
Loan 1	11/9/2021	£300	18 months	£61.67	18/11/2021
Loan 2	10/12/2021	£1,000	18 months	£205.56	active

Mr W applied for and received a loan from Loans 2 Go in between the above two loans, though he returned that within three days and was charged no interest, so I haven't considered that loan. With regard to loan 1 he paid this off early though he did miss a payment before doing so. With regard to loan 3, so far as I can see Mr W immediately started missing payments. He made one instalment payment on 31 January 2022. Loans 2 Go's notes indicate that no further payments were made, and the account was defaulted and is now in a pre-litigation stage. Mr W complained through his representative of irresponsible lending.

Loans 2 Go said it carried out eligibility and affordability checks through a credit reference agency. It obtained a credit report for each loan and verified Mr W's income. It assessed that for each loan the repayments were affordable to him.

Om referral to this service our adjudicator said that for loan 1 there was nothing in Loans 2 Go's check which should have led it to assess that the loan was unaffordable. He had very little active debt, and bearing in mind the small amount loaned, he had enough disposable income to meet the instalments. With regard to loan 3 our adjudicator noted that Mr W's income had gone down, and his credit commitments increased. He said in light of that Loans 2 Go should have carried out a more detailed assessment of his finances. However he wasn't able to say what that further assessment might have shown. Mr W was invited to send in bank statements but his representative asked for an ombudsman's decision without supplying any.

The matter has been referred to me for further consideration.

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 general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - on our website.

Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what’s fair and reasonable in the circumstances of this complaint are:

- Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Mr W would be able to repay the loans in a sustainable way?

- If not, would those checks have shown that Mr W would have been able to do so?

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

The checks had to be “borrower-focused” – so Loans 2 Go had to think about whether repaying the loans would be sustainable. In practice this meant that Loans 2 Go had to ensure that making the repayments on the loans wouldn’t cause Mr W 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 W**.** 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. I think that such a 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 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).

loan 1

The credit report showed that Mr W had one active loan, for which a monthly payment of £172 was due. A total balance of £271 was outstanding on this loan. He had no other active debts, according to the report. He had had problems in the past and had missed payments and had defaulted on accounts. He also had a previous CCJ (County Court Judgment) on his record. However this was dated some two years previously and was satisfied. As he had had no recent defaults, his credit commitments with the new loan instalment amounted to no more than 14% of his income. And he appeared to have a disposable monthly income of over £1,100.

I think, bearing in mind the small amount loaned that Loans 2 Go carried out proportionate checks. And those checks showed the loan was affordable.

loan 2

By the time Mr W had applied for loan 2, his income had apparently decreased from £1,750 To £1,500 month. It appears that he missed one instalment of the previous loan, though settled the whole loan soon afterwards, so it maybe that that wouldn't have been a reason to decline this loan. His credit record showed that he had paid off the loan disclosed in the credit report obtained in respect of loan 1. But he had taken out a new short term loan with £808 outstanding, for which he had to pay a monthly instalment of £235. And that loan was already 1 month in arrears. His bank account was overdrawn by £250. Those were the only active debts on his record. But added to the new loan instalment he would have been paying about 29-30% of his income on credit commitments, which may have been an indicator of potential unaffordability.

However Mr W would still have had over £675 disposable income left after taking account of the new loan instalment, so I think I think that from the checks Loans 2 Go did the loan was affordable.

Bearing in mind the large increase in the monthly payments due for this loan, and the fact that Mr W had run up an overdraft of £250 since taking out loan 1, only three months previously, I think that Loans 2 Go should have been alerted to carry out a more detailed assessment. This could have for example consisted of a review of his bank accounts. But as Mr W's representative hasn't sent in any bank statements or any other evidence of Mr W's ability to pay at the relevant time I'm unable to say what any further checks might have revealed. So I'm unable to uphold the complaint about this loan.

My final decision

I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 5 December 2022.

Ray Lawley
Ombudsman