

The complaint

Mr F complains about two loans provided to him by Loans 2 Go Limited, trading as Loans 2 Go, ("L2G"), which he says were unaffordable.

What happened

L2G agreed two loans for Mr F. Loan 1 was for £500 and was taken out in December 2019. Loan 2 was for £300 and was taken out in September 2021. Both of the loans have been repaid. Some of the information L2G provided about the loans is shown in the table below.

Loan number	Start date	End date	Loan amount	Monthly repayments	Term (months)
1.	1/12/2019	5/6/2021	£500	£114.28	18
2.	8/9/2021	22/3/22	£300	£61.67	18

Mr F says that the enormous interest rate L2G charged made his financial situation much worse. Due to struggling to pay back the loans and the effects on his finances, he was forced to take out more loans to pay for the debt he had and to survive on a daily basis.

Our adjudicator's view

Our adjudicator didn't recommend that Mr F's complaint should be upheld. He thought that the lender should've taken steps to build a more detailed picture of Mr F's financial situation and couldn't see that it did this. The adjudicator said that normally he'd consider the information L2G should have gathered to see whether it would've found anything concerning which might have affected its decision to lend. But as Mr F hadn't sent such information to this Service, he'd been unable to determine what L2G would've seen had it conducted proportionate checks. The adjudicator said that if Mr F was able to provide this information, he'd consider whether it made a difference to his complaint.

In response to the adjudicator's view, Mr F provided some of his bank statements from around the time of the loans and his credit report to this Service. The adjudicator reviewed this information. But he said that he hadn't seen anything which suggested the lender would've concluded that Mr F wouldn't have been able to have sustainably repaid these loans

Mr F disagreed and said that based on the documents he'd sent to this Service, it could be seen that he was already in a lot of debt during Loan 2. He believed that if L2G had asked for this information before giving the loan, it would have acted differently.

As this complaint hadn't been resolved informally, it was passed to me, as an ombudsman, to review and resolve.

my provisional decision

After considering all the evidence, I issued a provisional decision on this complaint to Mr F and to L2G on 15 September 2022. I summarise my findings:

I'd noted that when L2G lent to Mr F the regulator was the Financial Conduct Authority and relevant regulations and guidance included its Consumer Credit Sourcebook.

I'd said that L2G would be aware of the relevant regulations and how we considered irresponsible lending complaints, so I wouldn't go into detail on those points.

I'd thought about whether L2G completed reasonable and proportionate checks when assessing Mr F's applications to satisfy itself that he would be able to make his repayments without experiencing adverse consequences. I'd thought about the information it knew, and what it ought reasonably to have known.

Loan 1

Loan 1 was for £500. I'd noted that L2G had gathered some information from Mr F about his income and expenditure. It had also carried out a credit check.

Mr F told L2G his monthly income was £1,500. But L2G said it verified that he'd received a minimum monthly income of £1,084.86 via an online income verification tool. L2G had calculated Mr F's monthly living expenses and credit commitments to total £820.48. So, it said that the loan repayments would have been affordable.

I'd reviewed L2G's credit checks. I'd noted that these showed that Mr F had a total credit balance of £5,913. I could see that he had three active current accounts. On two of the accounts, Mr F's £2,000 balance was at the respective accounts' overdraft limit. Mr F was also near the overdraft limit on the third account. I thought L2G might have had concerns that Mr F's finances might have been under pressure as he was at or near the overdraft limit on his three current accounts.

I'd noted that L2G had said in its final response letter that when a lender carries out a credit search, the information it sees is not usually up to date in that recently obtained credit may not be visible to the lender at the time of the application. So, I could see that L2G was aware that Mr F might have had other credit.

L2G's affordability assessment wasn't tailored to Mr F and I thought it should have been in his circumstances. Mr F was entering into a significant commitment with L2G. He would need to make monthly repayments of around £114 for 18 months. Given the length of time Mr F was committing to repay the credit and what L2G would have likely seen on its credit checks, I didn't think its checks were sufficient for L2G to get a clear picture of Mr F's finances at the time.

L2G needed to do more than just ascertain whether the loan repayments were technically affordable on a strict pounds and pence calculation. It could have done this by, for example, requesting bank statements from Mr F and asking for copies of bills and/or receipts for his expenses. I couldn't see that L2G had taken steps to do this.

But although I thought L2G should have asked for some additional information before agreeing the loan, that in itself didn't mean that Mr F's complaint should succeed. I also needed to be persuaded that any further information would have shown L2G that Mr F couldn't repay the loan without the repayments having a significant adverse impact on his financial situation.

Mr F provided this Service with his bank statements for two current accounts from around the time of Loan 1 and his credit report. I'd reviewed these to give me the best picture of

what the lender should have seen, although I wasn't suggesting that these were the checks that L2G should have done.

I thought that the statements suggested that Mr F's financial circumstances were strained. I'd asked the adjudicator to ask Mr F for more information about his income at the time. Mr F told this Service that he was living off student finance. I'd noted that Mr F had received a student loan payment in September 2019, but most of this appeared to have been spent shortly after on rent, utilities and payday loan debt and Mr F's main current account was near its overdraft within around a month. His second current account was also near its overdraft limit from early October 2019. Mr F appeared not to have received any other income in October 2019. Mr F told this Service that he'd taken a part time job in November 2019 and I could see that he received £192.50 from that in November 2019. I could also see that Mr F had taken out two payday loans totalling £450 at the end of October 2019 and he borrowed short term credit of around £500 in November 2019. He also appeared to be receiving some money from family. At the same time, he was making monthly repayments totalling around £224 to two high cost loans he'd borrowed in March 2019 and September 2019 and was paying for food, travel and utilities.

As Mr F was borrowing a significant amount of short term credit, I thought there was a very real prospect that he would need to borrow again in order to repay his new loan and that would likely have a significant adverse effect on his financial situation.

So, I thought if L2G had carried out what I considered to be proportionate checks, it would have likely discovered that Mr F's income was substantially less than he'd declared, and the full extent of his financial commitments. I thought L2G ought reasonably to have realised that Mr F was over committed financially and that he was having significant difficulties managing his finances. Mr F's finances weren't stable, and I didn't think that further checks would have provided the assurance L2G needed.

So, I thought L2G should reasonably have concluded that it made an unfair lending decision when it agreed to lend Loan 1 to Mr F.

Loan 2

I could see that L2G's account notes for Loan 1 show a number of text messages in most months of the loan term telling Mr F his account was in arrears. So, I thought that L2G needed to exercise caution when considering lending to him for a second time around three months after Loan 1 was paid.

Loan 2 was for £300. I'd again noted that L2G had gathered some information from Mr F about his income and expenditure before granting the loan. It had also carried out a credit check.

Mr F told L2G his monthly income was £2,500 but L2G said that it verified that he'd received a minimum monthly income of £1,668.87 via an online income verification tool. L2G calculated Mr F's monthly living expenses and credit commitments to total £1,357.10. So, it said that the loan repayments would have been affordable.

I'd reviewed L2G's credit checks. I'd noted that these showed that Mr F had a total credit balance of £7,292. So, his overall credit balance had increased since Loan 1. I could see that he had three active current accounts. And that on two of the accounts, the balance of £2,000 was still at the respective accounts' overdraft limit. So, Mr F wasn't making any inroads in reducing this debt. I'd also noted that Mr F had taken out two credit cards and a mail order account in the nine months' period before his application for Loan 2 and his balances were approaching the credit limits on each of the accounts. So, again I thought

L2G might have had concerns that Mr F's finances might have been under pressure. Given the length of time Mr F was committing to repay the credit and what L2G would have likely seen on its credit checks, I would again have reasonably expected L2G to have taken steps to verify Mr F's actual monthly income and expenditure to gain a more thorough understanding of his financial position in order to satisfy itself that he would be able to repay the loan without having to borrow again. L2G didn't say that it took steps to do this.

Mr F told this Service he was living at home at the time of Loan 2 and was paying for board. He was also doing some irregular work. Mr F provided this Service with his bank statements for one of his current accounts from around the time of Loan 2 and his credit report. I could see that Mr F was also using another current account and I asked the adjudicator to ask Mr F for the bank statements for the second account which he provided. I'd reviewed all the bank statements for July 2021 and August 2021 to give me the best picture of what the lender should have seen, although I wasn't suggesting that these were the checks that L2G should have done.

It appeared from the statements that Mr F earned between around £1,440 to £1,740 each month. The statements suggested that Mr F's financial circumstances were still under pressure. If L2G had carried out what I considered to be proportionate checks, I thought it was likely it would have discovered that Mr F's regular living costs and his financial commitments exceeded his income. And it should reasonably have realised that Mr F was over committed financially.

Mr F's account statements showed that he had exceeded the overdraft limit on one current account on several occasions and payments were returned. He was also near the overdraft limit on his second current account several times each month. In July 2021 and August 2021, he appeared to have borrowed short term credit totalling nearly £2,400 and there also appeared to be transfers from family members. Mr F's finances weren't stable and as he was borrowing a significant amount of short term credit just to fund his existing expenditure and credit commitments, I thought there was a very real prospect that Mr F would need to borrow again in order to repay his new loan and that would likely have a significant adverse effect on his financial situation.

So, if L2G had carried out the independent view of Mr F's circumstances that I thought was needed for this loan, I thought it ought reasonably to have realised that Mr F was having problems managing his finances. And I didn't think that L2G had made a fair lending decision when it agreed to lend Loan 2 to Mr F. It was likely that agreeing more credit for him would simply add to his debt levels.

So, subject to any further representations by Mr F or L2G, I intended to uphold Mr F's complaint and say that L2G should put things right as follows.

Putting things right – what L2G needs to do

I understand that Loans 1 and 2 have been repaid. As I think that L2G was irresponsible to have lent to Mr F, he shouldn't have to pay any interest, fees or charges on the loans.

So, L2G should:

- Refund any interest and charges paid by Mr F on Loans 1 and 2;
- Add simple interest at a rate of 8% per annum to each of these amounts from the date they were paid to the date of settlement*; and
- Remove any adverse information recorded on Mr F's credit file in relation to Loans 1 and 2.

*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.

Mr F responded to the provisional decision to say he was happy with it.

L2G responded to the provisional decision to say that it disagreed with it. It said, in summary, that:

- There were no rules as to the checks to be carried out in respect of the loan application, given the size of the loans and the results of the credit checks it performed. L2G didn't think it would have been fair for it to have asked for more information.
- The results from its checks were on the whole positive. There were no CCJs or defaults listed and Mr F was within his credit limits. It noted that all the credit commitments listed were reported as up to date or satisfied. It hadn't seen anything to suggest that Mr F was facing financial detriment or that further checks would have been required.
- It used an income verification tool with a credit reference agency ("CRA") to check that Mr F's bank account had turned over his stated income amount on average in the last 6 and 12 months and this determined whether Mr F's income amount, either gross annual or net monthly, was bona fide. For Loan 1 it verified that Mr F's income was a minimum of £1,084.86, and for Loan 2 it verified that Mr F's minimum income was £1,668.87.
- Since it verified Mr F's income, it had no reason to believe that the information given by Mr F on the applications wasn't accurate.

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.

I have also taken into account the law, any relevant regulatory rules and good industry practice at the time.

Although I've summarised and only set out the main points of L2G's response, I can confirm that I've read and carefully considered all of the arguments it has made. I appreciate that this will be very disappointing for it, but I am still of the view that it was irresponsible for it to have agreed the loans for Mr F. I've explained my reasons in my provisional decision and I've also responded to its main points in response to my provisional decision below.

I note that L2G said that there were no rules as to the checks to be carried out. But the lender did need to take into account Mr F's income and his ongoing expenditure for living expenses and other debts. Whilst it is down to the lender to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments and the total cost of the credit.

In Mr F's circumstances, bearing in mind the term of the loan, the cost of the credit, what L2G had seen or ought to have seen in the information gathered, I think L2G needed to get a thorough understanding of Mr F's financial position in order to properly assess whether he'd be able to make the loan payments he was being asked to commit to as they fell due over the life of the agreements, without him having to borrow to meet the repayments, without him

failing to make any other repayment he had a contractual or statutory duty to make, and without the repayments having a significant adverse effect on his financial situation. It could have done this by, for example, requesting bank statements from Mr F, asking for copies of payslips, bills and/or receipts for his expenses and by asking him for more information about his existing credit commitments.

I also note that L2G said that the results from its credit checks were on the whole positive. But as I've set out above, I think the results of L2G's credit checks on each of the loans should have caused the lender concerns as I think they suggested that Mr F's finances could be under pressure.

In addition, I note L2G has provided information about its income verification checks with the CRA and the amounts it used as Mr F's monthly income in its assessment. But it hasn't provided any details of the results of its checks to this Service. So, I don't know whether the amounts passing through Mr F's current account were income or something else.

I also note that L2G said in its response

"Loans2Go only verified the income required to ensure that the loans were affordable. For loan 1 we verified that [Mr F's] income was a minimum of £1,084.86, and for loan2 we verified that [Mr F's] minimum income was £1,668.87. He may well have been receiving more as he declared his income to be £1500 for loan 1 and £2,500 for loan 2. However, we only verified the income required to ensure the loans were affordable and sustainable for the customer."

I note that there was a discrepancy between what Mr F had said about his income and what L2G could see through its checks. I can see that L2G said that Mr F may well have been receiving more than the amounts it verified. But I think given the discrepancies for both loans, it should have taken additional steps to verify Mr F's actual income amounts. I think it would have been reasonable in Mr F's circumstances for it to have crosschecked these amounts with Mr F's payslips or with his bank account statements.

The two loans weren't short term credit commitments. Bearing in mind the results of L2G's checks and that Mr F was entering into commitments to make his monthly loan repayments for a relatively long period of time, I don't think it was sufficient in Mr F's circumstances for L2G to rely on the information provided by Mr F in his loan applications. I also think that L2G might have been concerned that the loan amounts were significantly less than the monthly disposable incomes Mr F declared in his applications. It seems inconsistent to me that Mr F was applying for loan amounts of £500 and £300 when he'd told L2G that he had significantly more than these amounts available each month.

As I've said above, if L2G had made better checks, it would have likely seen that Mr F was over committed financially and that he was having significant difficulties managing his finances. I don't think that L2G's checks were enough here to get a clear picture of Mr F's finances at the time of his loan applications for the lender to be confident that he would be able to make his loan repayments over the life of the agreements, without him having to borrow to meet the repayments, without him failing to make any other repayment he had a contractual or statutory duty to make, and without the repayments having a significant adverse effect on his financial situation.

So, the additional information L2G has provided hasn't persuaded me that I should change my provisional decision. It follows that I uphold this complaint and require L2G to pay Mr F

some compensation and take the steps as set out above under the heading “Putting things right – what L2G needs to do.

My final decision

My decision is that Mr F’s complaint should be upheld. In full and final settlement of this complaint, I order Loans 2 Go Limited, trading as Loans 2 Go, to take the steps set out above under the heading “Putting things right – what L2G needs to do”.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr F to accept or reject my decision before 6 December 2022.

Roslyn Rawson

Ombudsman