

The complaint

Miss B complains 1Plus1 Loans Limited provided her with an unaffordable guarantor loan.

What happened

In March 2017 1Plus1 Loans approved Miss B with a £3,000 guarantor loan. The loan had a term of 60 months with instalments of around £108 a month. The total repayable value of the loan was around £6,450.

Miss B complained to 1Plus1 Loans saying it had irresponsibly provided her with the loan; as had it completed reasonable and proportionate checks it would have identified it was unaffordable for her. 1Plus1 Loans issued its final response in May 2022 not upholding the complaint; so, Miss B asked our service to consider it.

Our investigator reviewed the complaint and upheld it. He said the checks 1Plus1 Loans completed ought reasonably to have led to it concluding that providing Miss B with the loan would be unsustainable or otherwise harmful to her.

1Plus1 Loans didn't agree. In summary it said this loan was to consolidate debts and that Miss B would be in a better financial position each month. It also said it was comfortable with the debt-to-income and monthly payment to income ratios applicable to this lending.

Our investigator reviewed 1Plus1 Loans' response and issued a second opinion, setting out why his outcome didn't change.

1Plus1 Loans didn't respond to our investigator's second upheld assessment, or his chasers for a response, so the complaint has been passed to me to decide.

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.

Having done so I've reached the same conclusion as our investigator, and for broadly the same reasons. I've explained why below.

We've set out our approach to complaints about irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website. I've used this approach to help me decide Miss B's complaint.

Bearing in mind the complaint before me, there are a number of overarching questions I need to consider in order to fairly and reasonably determine Miss B's complaint. These are:

1. Did 1Plus1 Loans complete reasonable and proportionate checks on Miss B to satisfy itself she was in a position to afford to repay the loan sustainably?
 - If so, did it make a fair decision?
 - If not, would those checks have shown Miss B would have been able to do so?

2. Did 1Plus1 Loans act unfairly or unreasonably in some other way?

I've gone on to consider each of these questions in turn.

Did 1Plus1 Loans complete reasonable and proportionate checks on Miss B to satisfy itself she was in a position to afford to repay the loan sustainably?

1Plus1 Loans needed to take reasonable steps to ensure the lending it provided was responsibly lent to Miss B. The relevant rules, regulations and guidance at the time 1Plus1 Loans lent required it to carry out reasonable and proportionate checks. These checks needed to assess Miss B's ability to afford the loan and repay it sustainably over its term, without causing her financial difficulties.

There isn't a set list of checks a lender needs to carry out, but they should be proportionate, taking into account things like the type, amount, duration and total cost of the credit, as well as the borrower's individual circumstances.

And it isn't sufficient for 1Plus1 Loans to just complete proportionate checks – it must also consider the information it obtained from these checks to make a fair lending decision. This includes not lending to someone in financial hardship; and ensuring repayments can be made sustainably without having to borrow further.

I've taken all of this into account when thinking about this loan.

1Plus1 Loans has said Miss B declared her income as around £1,700 per month which it confirmed via an online verification tool; and her expenses as around £500 per month. Miss B told 1Plus1 Loans that her partner paid most of the rent and household bills which is why the figure appeared lower than may reasonably have been expected, and it appears 1Plus1 Loans accepted this. It also completed a credit file check and identified Miss B had monthly credit commitments of around £600, and Miss B declared she was paying around £200 per month towards two CCJs. 1Plus1 Loans added in a buffer of £200 per month for any unexpected costs and concluded Miss B would be left with around £200 per month before taking into account the payment of around £108 towards this loan. 1Plus1 Loans therefore calculated Miss B would be left with around £100 disposable income per month after all deductions were taken into account.

1Plus1 Loans says it completed reasonable and proportionate checks which showed this loan was sustainably affordable to Miss B and it therefore made a fair decision to lend.

I've carefully considered 1Plus1 Loans' argument, but I'm not persuaded it did complete reasonable and proportionate checks in this instance.

I say this because the credit file check 1Plus1 Loans obtained suggested that Miss B was showing signs that she wasn't managing her finances well.

There were three defaults dating from 2012 and 2013, with the latest of these three having been registered around five years before this loan. I don't consider, given the length of time since these defaults, that they ought reasonably to have been of concern to 1Plus1 Loans on their own. But Miss B had taken out two other large guarantor loans within 12 months of this application with a total outstanding balance of around £22,500; and it also identified that Miss B had defaulted on a credit card account four months prior to this application.

During the application call Miss B made 1Plus1 Loans aware that she had two CCJs, which although historic, were still active and which she was making monthly payments towards,

although she said she would be clearing these with this loan. During this call Miss B also disclosed the two guarantor loans showing on the credit file were taken at least in part to benefit family members, who were contributing towards their monthly repayments. Miss B also told 1Plus1 Loans that one of the family members was currently out of work which meant they hadn't been able to contribute towards repayment of one of the existing guarantor loans.

Miss B said she intended to use part of the loan with 1Plus1 Loans to consolidate both of the existing guarantor loans to reduce her monthly payments; suggesting she wasn't in a position to maintain the loans at their current level without the financial support she had been receiving from her family.

In addition to this Miss B had told 1Plus1 Loans that she had two dependants; so, it was aware there was the potential for further unexpected costs to crop up on a monthly basis that Miss B would need to cover.

The recently defaulted credit card suggests Miss B's finances were tight as she wasn't able to maintain at least the minimum payment to stop the credit card account from defaulting. I consider the documentary evidence 1Plus1 Loans obtained painted a different picture to that of the affordability assessment it completed which showed a reasonable level of disposable income each month, even after adding in a £200 buffer for unexpected expenses, and I think 1Plus1 Loans needed to explore this further.

Taking all the above into account, I'm satisfied 1Plus1 Loans didn't completed reasonable and proportionate checks in this instance. I consider reasonable and proportionate checks would have led 1Plus1 Loans to obtain a thorough understanding of Miss B's financial position, by verifying her expenditure in addition to the income verification it completed to ensure repayment of this loan would be sustainably affordable for her over the full term.

Would reasonable and proportionate checks have shown Miss B would have been able to sustainably afford repayments to the loan?

Miss B hasn't provided our service with evidence in order for me to determine what reasonable and reasonable checks would likely have shown 1Plus1 Loans. So, I'm unable to conclude this loan was unaffordable for her on a strictly pounds and pence basis. However, I think there are other reasons 1Plus1 Loans didn't make a fair lending decision when approving this loan; and I've gone on to explain why below.

At the point of this application Miss B's total indebtedness stood at around £24,000, based on the credit file check 1Plus1 Loans obtained and Miss B's declarations; which was around the same level as her yearly income. 1Plus1 Loans knew part of Miss B's income was partly made up of benefits, and therefore that this reasonably significant proportion of her income was unlikely to considerably increase during the term of the loan.

Miss B had taken out two sizeable guarantor loans within the 12 months leading up to this lending, one of which she declared was in part to support a family member, but both of which she declared she was receiving financial support from family members with the monthly repayments. 1Plus1 Loans appears to have accepted Miss B's explanation about the way repayments were being made without further questioning; and I don't think it ought to have so easily accepted Miss B's explanation here.

I say this because the two existing guarantor loans were in Miss B's name, and therefore she was responsible for the full repayments to each month. Miss B indicated she was receiving financial support from family members in repaying these loans; and had told 1Plus1 Loans that one family member was now out of work and unable to contribute towards

the repayments. With this knowledge and given that Miss B hadn't been able to maintain at least minimum payments to stop her credit card recently defaulting, I consider this ought to have put 1Plus1 Loans on notice that Miss B was already finding her commitments unsustainable.

1Plus1 Loans has argued that Miss B was using this loan to consolidate debts and therefore would have been in a better financial position each month. While Miss B had said she intended to use the loan to consolidate existing debts, I question how successful this would be or indeed how beneficial this really was for Miss B.

The loan with 1Plus1 Loans was for £3,000; so, would only be used to consolidate a relatively small amount of her existing debts. Based on Miss B's declarations during the call there would be a minimal amount left to pay towards the existing guarantor loans, after taking into account the consolidation of the defaulted accounts and outstanding CCJs, suggesting this wouldn't have had as meaningful an impact as she had suggested in terms of reducing the monthly payments to the existing guarantor loans. And by using a large proportion of this loan to clear defaulted accounts and CCJs, she was using a high-cost loan to consolidate debts that would have attracted significantly lower rates of interest, if any interest at all.

I think the evidence 1Plus1 Loans obtained painted a clear picture that Miss B was already showing signs of financial distress at the point of this application. Miss B had been unable to maintain minimum payments on her credit card – which had then defaulted within months of the other guarantor loans being approved – and within four months of this application being made. This strongly suggests Miss B's level of debt was already at a point that was unsustainable for her to service and further borrowing would only worsen her already bad financial situation.

So, taking account of all the above information, I think 1Plus1 Loans had enough information from the evidence it obtained that Miss B wasn't a suitable candidate to lend to, as further borrowing would be unsustainable or otherwise harmful to her. And it therefore follows I'm satisfied 1Plus1 Loans didn't make a fair lending decision when providing Miss B this loan.

Did 1Plus1 Loans act unfairly or unreasonably in some other way?

I've not seen any other information which suggests 1Plus1 Loans acted unfairly or unreasonably in any other way in relation to Miss B's complaint.

Putting things right

As Miss B's had the benefit of the lending, I think it's fair and reasonable that she repays the principal amount borrowed. But Miss B has paid interest and charges on a loan that has now been repaid but that shouldn't have been provided to her. So, I think Miss B has lost out and 1Plus1 Loans Limited should put things right by taking the following action:

- a) Remove all interest, fees and charges applied to the loan from the outset. Any payments made by Miss B should then be deducted from the new starting balance. If the payments Miss B has made total more than the amount she was originally lent, then any surplus should be treated as overpayments and refunded to her.
- b) Add 8% simple interest* calculated on any overpayments made, from the date they were paid by Miss B, to the date the complaint is settled.
- c) Remove any adverse information recorded on Miss B's credit file as a result of this loan.

*HM Revenue & Customs requires 1Plus1 Loans Limited to deduct tax from this interest. 1Plus1 Loans Limited should give Miss B a certificate showing how much tax it's deducted, if she asks for one.

My final decision

For the reasons set out above my final decision is that I'm upholding Miss B's complaint about 1Plus1 Loans Limited and direct it to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 1 February 2023.

Richard Turner
Ombudsman