

The complaint

Mr K complains that Loans 2 Go Limited (L2G) lent irresponsibly when it approved his loan application.

What happened

Mr K applied for a loan with L2G in August 2021. L2G approved the application and gave Mr K a loan of £500. The total amount repayable was £1850.04 by instalments of £102.78 per month.

Mr K complained that L2G lent to him irresponsibly. L2G didn't uphold the complaint. Mr K complained to this service.

Our investigator upheld the complaint. She didn't think the decision to lend was fair because she thought there were signs that Mr K was in financial difficulty prior to applying for the loan.

L2G didn't agree. It said that all of Mr K's credit commitments were up to date when he applied for the loan and there was only one account in arrears. L2G also said that all of Mr K's credit cards were within limit and it didn't think there was enough evidence to say that the loan was unaffordable.

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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've had this approach in mind in considering what's fair and reasonable here.

Before agreeing to lend, the rules say L2G had to carry out reasonable and proportionate checks to ensure Mr K could afford to repay the debt in a sustainable way. These affordability checks need to be focussed on the borrower's circumstances. The nature of what's considered reasonable and proportionate will depend on various factors including the amount of credit, the total sum repayable, the amount of repayments, the cost of credit and the consumer's individual circumstances.

There's no set list of checks a lender must complete. But lenders are required to consider the factors I've mentioned above when considering what's reasonable and proportionate.

L2G says it looked at the information Mr K provided about his monthly income and expenditure. Mr K stated that he had a monthly income of £2300. L2G says it checked this and found that Mr K's income was £1368. L2G looked at Mr K's credit file and calculated his monthly expenditure at around £1035.

L2G also carried out a credit check. The check showed that Mr K had a credit card account, a loan, and two other consumer credit commitments. The history of the loan account showed

that Mr K had been in arrears for several months. The credit card had a credit limit of £500 and a balance of £416. In addition, Mr K had a current account with an overdraft facility, of which £496 had been utilised.

Based on what I've seen, I think L2G should've carried out further checks to find out more about Mr K's financial circumstances to check that he could afford the loan. This is because I think the fact that another loan account held by Mr K had been in arrears for several months indicated that he was unlikely to be able to afford to repay further borrowing.

Because I don't think the checks carried out by L2G were reasonable and proportionate, I've gone on to consider what a reasonable and proportionate check would've shown. I've already said that Mr K had another loan which had been in arrears for several months. Given that Mr K had experienced difficulties repaying existing borrowing, I think this showed that he was likely to experience difficulties in repaying any further borrowing. Mr K hasn't provided any bank statements from the time of the application, but from the credit check I can see that Mr K was utilising his overdraft facility, and this indicates that he didn't have sufficient income to afford his existing borrowing.

Even on L2G's own calculations, Mr K's monthly income of £1368 and expenditure of £1035 leaves insufficient disposable income for any further borrowing to be sustainably affordable. Taking into account the loan repayments of £102, L2G haven't allowed for a buffer to meet other or unexpected expenses.

I've taken into account that having been approved for the loan, Mr K was unable to meet any of the contractual repayments.

Based on the information I've seen, I don't think the checks were reasonable and proportionate, and I don't think the decision to lend was fair. The information shows that Mr K was already experiencing financial difficulties before he applied for the loan.

Taking everything into account, I'm of the view that L2G lent irresponsibly to Mr K.

Putting things right

To settle the complaint, L2G must:

1. Refund all interest and charges Mr K has paid to date
 2. If the borrowing is still in place, reduce the outstanding capital balance by the amount at (1) above
 3. If after (2) above a capital balance remains outstanding, L2G should ensure that this isn't subject to any historic or future interest or charges.
- If, after (2) above a positive balance exists, this should be given back to Mr K together with 8% simple interest.
4. L2G should remove any adverse information recorded on Mr K's credit file in connection with the loan

HMRC may require L2G to take off tax from the interest at (3). If it does, L2G must give Mr K a statement showing how much was taken off, if he asks for one.

My final decision

My final decision is that I uphold the complaint. Loans 2 Go Limited must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 4 January 2023.

Emma Davy
Ombudsman