DRN-3816790

The complaint

Mrs B complains through her representative that Loans 2 Go Limited irresponsibly lent her money on three high cost loans, on which she couldn't afford the repayments.

What happened

Loans 2 Go provided Mrs B with the following loans:

	Date of loan	Amount	Repayment period	Monthly instalment
Loan 1	7/11/2016	£500	18 months	£113.28
Loan 2	9/2/2017	£1,000	18 months	£195.56
Loan 3	11/7/2017	£1,000	18 months	£195.56

Mrs B appears to have repaid loans 1 and 2. However for loan 3 she got into difficulties from about September 2017, two months into the loan. She missed a number of payments and then arranged to make lower payments. However it appears she wasn't able to keep to the arrangement and Loans 2 Go eventually sold the loan on to a third party in August 2019. She complained through her representative that the loans were unaffordable to her.

Loans 2 Go said it carried out all necessary eligibility checks, including verifying her income and carrying out credit checks for each loan. It assessed that the loans were affordable. However in light of her circumstances it offered to refund for loan 3 half of the interest paid. Mrs B declined the offer.

Loans 2 Go has provided a copy of the credit report it obtained for loan 1, and some documentation for loan 3. It has provided basic figures it used for its assessment of disposable income, though it hasn't been able to provide the credit reports obtained for loans 2 and 3.

On referral to the Financial Ombudsman, our adjudicator said that, in light of Mrs B being unable to supply her bank statements, without a true reflection of her outgoings, she couldn't say the loans were unlikely to be affordable.

I issued a provisional decision. In it I said that I thought all three loans were unaffordable and that Loans 2 Go didn't make fair lending decisions in respect of the loans.

Loans 2 Go said it had no additional points to add. Mrs B's representative hasn't responded, so I'll assume it doesn't want to say anything further.

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.

My provisional findings are set out below in italics:

"*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 Mrs B would be able to repay the loans in a sustainable way?*

- *If not, would those checks have shown that Mrs B 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 Mrs B'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 Mrs B undue difficulty or significant adverse consequences. That means she 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 she had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on her 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 Mrs B. 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

For this loan, we have the credit report Loans 2 Go obtained before it approved this loan. Mrs B clearly had several defaulted accounts on which she was making arranged payments. I've calculated the amounts she would have been paying for her commitments, ignoring those that only had a minimal amount left to pay, using the "regular payment" figure set out in the report. If Mrs B clearly wasn't paying that I've used the figure for the amount she was regularly paying. If no figure was given, I've used a 5% payment of the balance on the relevant account. I've noted that she owed over £660 on a gas account which should have been a concern if she was getting into difficulties over payment of utilities.

My calculations produce a figure of £334 for monthly credit commitments. Adding that to the new loan instalment of £113.28 meant that her credit commitments after the loan was approved amounted to around 52% of her assessed monthly income of £851.39. Which I think was an indication that the loan was likely to be unaffordable.

Loans 2 Go has set out that Mrs B's living expenses and credit commitments together were £408. When considering this would leave around £74 for living expenses, I think this was unlikely to be realistic.

I think that Loans 2 Go carried out proportionate checks, bearing in mind the amount of the loan, and whilst there were indications that Mrs B had defaulted accounts I don't think this would necessarily have led to Loans 2 Go carrying out further checks (and we don't know what those checks might have revealed). In any event from the information Loans 2 Go did obtain I think this loan was unaffordable.

loan 2

Loans 2 Go has been unable to provide a copy of the credit report it obtained. It's given us an overall figure for credit commitments and living expenses of £376. I don't know if Mrs B paid off loan 1 with this loan. And I don't know if her credit commitments or living expenses went down. But bearing in mind this was only three months after the first loan I think it unlikely that Mrs B's credit status had changed much. If I assume that the credit commitments had gone down by £32, this still meant that with the new loan instalment, those commitments would have been around £497.56, still about 52% of her assessed monthly income of £953.18. For the same reasons as for loan 1 I think this was an indication that the loan was likely to be unaffordable.

In the case of this loan as well, the figure for credit commitments would have meant very little for living expenses, again about £74, which again is unrealistic.

I bear in mind that I have had to draw conclusions because of a lack of evidence. But it does appear that Loans 2 Go did credit checks for all three loans, which it should have been able to make available. So again whilst it did appear that Loans 2 Go carried out proportionate checks, I think those checks would have shown the loan to be unaffordable.

loan 3

We have a little more information about this loan, including the loan agreement and a partial bank statement. But this statement only shows a few entries and not the overall balance. And still no credit report is available.

This time Loans 2 Go said Mrs B's combined living expenses and credit commitments were around £678. As it seems unlikely that Mrs B's living expense had gone up by over £300, I can only assume that her credit commitments had gone up by that figure – it may be that the *loan 2 was still continuing. Her assessed income was monthly £965.18. If the credit commitments had really gone up by that much, then the ratio of those to her income would have been around 63%. And clearly in my view unaffordable.*

Again the lack of information doesn't help with the assessment of this case. But as I think it likely that the increase in the combined figure was due to an increase in Mrs B's credit commitments, this loan was unaffordable. Where a credit report has clearly been carried out I don't think it's for Mrs B or her representative to show us what that report might have shown.

So for all three loans I don't think Loans 2 Go made fair lending decisions."

As neither party has made any further comments, my provisional findings are now final and form part of this final decision.

Putting things right

Mrs B has had the capital payment in respect of the loans, so it's fair that she should repay this. So far as the loans are concerned, I think Loans 2 Go should refund all interest and charges as follows:

- Remove all interest, fees and charges applied to the loans.
- Treat any payments made by Mrs B as payments towards the capital amount.
- If Mrs B has paid more than the capital, refund any overpayments to her with 8% simple interest* from the date they were paid to the date of settlement.
- But if there's still an outstanding balance, Loans 2 Go should come to a reasonable repayment plan with Mrs B
- If Loans 2 Go has sold the outstanding debt to a third-party it should do what it can to buy it back - if it can't, it can't deduct any outstanding balance from the redress and it then needs to work with the third-party to bring about the steps above.
- Remove any adverse information about the loans from Mrs B's credit file.

*HM Revenue & Customs requires Loans 2 Go to deduct tax from this interest. It should give Mrs B a certificate showing how much tax it's deducted if she asks for one.
Your text here

My final decision

I uphold the complaint and require Loans 2 Go Limited to provide the remedy set out under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 19 December 2022.

Ray Lawley
Ombudsman