

## The complaint

Miss L complains 1Plus1 Loans Limited lent to her irresponsibly.

## What happened

In February 2019 Miss L applied for a guarantor loan for £4,000, which was repayable over a period of 60 months. Following a conversation between 1Plus1 Loans and Miss L's guarantor, this was changed to a loan for £5,000, which was repayable over a period of 42 months. The repayments were around £221 a month and she would need to repay £9,288 in total.

The reason for taking out the loan was debt consolidation – refinancing two existing guarantor loans she had taken out a month earlier. Miss L's credit file showed that she owed £944 and she needed to pay £103 monthly over 12 months on one. And that she owed £3,600 on the other one, which she needed to pay £203 monthly over 18 months.

Miss L says 1Plus1 Loans shouldn't have given her the loan because she was already experiencing financial hardship, and it wasn't affordable. 1Plus1 Loans says it did check whether the loan was affordable, and based on those checks, Miss L had enough disposable income to make the loan repayments.

Our investigator thought Miss L's complaint should be upheld. 1Plus1 Loans disagreed, so this complaint has been passed to me to make a decision. I issued a provisional decision explaining why I thought the complaint should be upheld. Before reaching my findings, I had requested some further information from Miss L about her rent payments, the amount she needed to pay to close the larger of her two existing loans, and for copies of her salary mandated bank account. The additional information was referenced in my provisional decision and so both parties have had an opportunity to respond once they had chance to consider them.

In my provisional decision I explained that:

*'We've set out our approach to complaints about unaffordable and irresponsible lending on our website. And I've taken this into account in deciding Miss L's complaint.'*

*The rules and regulations in place when 1Plus1 Loans lent to Miss L required it to carry out a reasonable and proportionate assessment of whether she could afford to repay the credit she was being advanced in a sustainable manner. The assessment had to be "borrower focused" – so 1Plus1 Loans had to think about whether repaying the loan sustainably would cause difficulties or adverse consequences for Miss L. In other words, it wasn't enough for 1Plus1 Loans to simply think about the likelihood of it getting its money back, it had to consider the impact of the repayments on Miss L.*

*Checks also had to be "proportionate" to the specific circumstances of the loan application. In general, what makes an affordability check proportionate will depend on several 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.

So I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower an applicant's income because it could be more difficult to make the repayments as a result;
- the higher the amount repayable because it could be more difficult to meet a higher repayment, especially from a lower level of income;
- the longer the loan term, because the total cost of the credit was likely to have been greater given the longer time over which repayments have to be made.

There may also be other factors which could influence how detailed a proportionate check should've been for a given loan application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances.

#### Did 1Plus1 Loans complete a reasonable and proportionate check?

1Plus1 Loans did complete some checks to see if the loan was affordable. It asked Miss L for details of her income and expenditure and attempted to verify these using an open banking report linked to one of her bank accounts. However, Miss L's salary was not paid into the account 1Plus1 Loans used to validate her income and so it could only see benefit payments and transfers into (and out of) her account.

It reviewed her credit file to understand her credit history and existing commitments. It also asked about the purpose of the loan, which Miss L said was for debt consolidation – she planned to consolidate two guarantor loans that she had taken a month earlier.

From these checks combined 1Plus1 Loans concluded that Miss L had enough monthly disposable income to afford the loan. Based on 1Plus1 Loans' checks, it concluded Miss L had a monthly disposable income of around £650, not including the payment for the new loan.

Miss L's credit file showed she was two months payments behind on a catalogue shopping account and had missed a couple of recent payments towards a mobile phone account. She explained that she didn't pay these accounts via direct debit and she had forgotten to make the payments. Her credit file also showed she had four historic defaulted accounts (the most recently being from 2017). But these facts alone don't mean 1Plus1 Loans shouldn't have lent to her.

Miss L did have three quite recent county court judgements (CCJs) from 2017 and 2018. There was also a fourth from 2014. Miss L explained that the 2017 and 2018 CCJs were all for non-payment of council tax and that they all had been satisfied. She went on to explain that she would start paying £75 a month from April towards the following year's council tax. Miss L declared she was a council tenant and paid £360 in rent each month. Having established that she wasn't currently making a monthly payment for council tax, I think 1Plus1 Loans needed to question why only two payments towards Miss L's local council showed on her bank statements – the first for £344 in November 2018 and a second in January 2019 for only £130.

In summary, 1Plus1 Loans' checks failed to validate Miss L's declared income nor her non-discretionary spending but, to an extent, it established a poor track record of making repayments on time. In the circumstances, I'm not persuaded its checks were reasonable

*and proportionate – and so, I must now consider whether reasonable and proportionate checks would have shown that it should or should not have agreed this loan.*

*But before I consider this, I am also concerned that 1Plus1 Loans agreed to increase the size of the loan and how long Miss L would be paying it back for at the guarantor's request not hers. Whilst I accept Miss L agreed to the revised amount and term, she did so only after she was told it had been agreed by 1Plus1 Loans' underwriters and her guarantor.*

*I've listened to the call between Miss L and 1Plus1 Loans when her application for a £4,000 loan over 60 months was discussed. Miss L said the loan was to consolidate her two existing guarantor loans that she had taken out a month earlier and that she would use any left-over money for home improvements. 1Plus1 Loans pointed out that the two balances showing on her credit file were more than the £4,000 she was asking to borrow – £944 and £3,600. Miss L explained that the £3,600 loan balance included interest for the full term that had been added upfront by the lender and that she wouldn't need to pay that amount to repay the loan in full early.*

*The monthly repayments for the loan in question were £203 over 18 months – that's £3,654 in total. So, it ought to have been obvious to 1Plus1 Loans – with its lending expertise – that the interest was front loaded and, given the loan had only run for a month, that Miss L would have been entitled to a sizeable rebate. It instead agreed with the guarantor to increase the loan amount to £5,000, which meant that Miss L would now repay £9,288 in total whereas she would have needed to only repay around £4,900 under her existing agreements. So in these circumstances, noting that the guarantor could have become ultimately responsible for repaying the loan, I cannot agree 1Plus1 Loans' affordability assessment was "borrower focused".*

#### *What would reasonable and proportionate checks have shown?*

*I've explained above why I think 1Plus1 Loans' checks didn't go far enough and that it ought to have, as a minimum, checked Miss L earned the income she declared. Our investigator went back to Miss L to ask for copies of the bank statements for her account where her salary was paid. These showed that in October 2018 she took home £1,838, in November she took home £1,909, and in December she took home £1,909. 1Plus1 Loans used £1,750 for her take home pay in its affordability assessment – so it could have arrived at a higher figure for Miss L's disposable income. But of course, the statements also could have showed a different amount of non-discretionary spending.*

*1Plus1 Loans' affordability assessment doesn't breakdown Miss L's expenditure and so I cannot make a like for like comparison using the actual figures showing on her bank statements. The statements do, however, have a start and end balance – her November 2018 started £48 overdrawn and ended £28 overdrawn; her December statement ended £1 in credit, and her January statement ended £45 overdrawn. Whilst I accept the turnover on Miss L's account was not solely non-discretionary spending, I think it's a good enough proxy to show her finances were strained. I think it is unlikely Miss L did have the £650 at her disposal, which 1Plus1 Loans had arrived at in its affordability assessment.*

*I also thought 1Plus1 Loans needed to question why only two payments towards Miss L's local council showed on her bank statements when she paid £360 monthly towards her rent. When our investigator went back to Miss L, she asked why and she provided a statement for her council rent account. These show that Miss L failed to pay her rent in December 2018 and although she made a payment at the start of January, at the time of the loan application, she had yet to pay for February. The account stood at £864 in arrears.*

*I find that in Miss L's circumstances, reasonable and proportionate checks would have shown that she was unlikely to repay the loan in a sustainable way – she was already experiencing repayment and wider financial distress. I don't think increasing her indebtedness was a realistic solution for her problems. And I think there was enough information available to 1Plus1 Loans to prompt further questioning about Miss L's ability to maintain the new borrowing she was requesting.'*

I asked the parties to the complaint to let me have any further representations that they wished me to consider by 5 December 2022. 1Plus1 Loans has confirmed receiving the decision but did not make any further representation. Miss L has also replied confirming receipt of and her agreement with my provisional findings.

### **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've reviewed everything again. Neither Miss L nor 1Plus1 Loans have made further comments in reply to my provisional findings. So, I've not seen enough for me to alter my provisional conclusions.

### **Putting things right**

When I find that a business has done something wrong, I'd normally direct that business – as far as it's reasonably practicable – to put the complainant in the position they would be in now if the mistakes it made hadn't happened. In this case, that would mean putting Miss L in the position she would now be in if she hadn't been given the loan in question. However, this isn't straightforward when the complaint is about unaffordable lending.

Miss L was given the loan and she used the money. In these circumstances, I can't undo what's already been done. So, it isn't possible to put Miss L back in the position she would be in if she hadn't been given the loan in the first place. Instead, I must consider another way of putting things right fairly and reasonably given the circumstances of this complaint.

Having done so, I think 1Plus1 Loans should:

- a) Remove all interest, fees and charges applied to her loan from the outset. The payments Miss L made should then be deducted from the new starting balance. If the payments Miss L 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 L to the date the complaint is settled.
- c) Remove any adverse information recorded on Miss L's credit file as a result of this loan, once the debt is repaid.

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

### **My final decision**

For the reasons I've explained, I uphold Miss L's complaint and direct 1Plus1 Loans Limited to put things right for Miss L in the way I've set out above.

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

Stefan Riedel  
**Ombudsman**