

The complaint

Ms H says Loans 2 Go Ltd irresponsibly lent to her.

What happened

This complaint is about three instalment loans Ms H took out from Loans 2 Go. A summary of her borrowing follows. Loan 3 was a top up loan for loan 2 and was used in part to settle it.

loan	taken out	repaid	value, £	term in months	monthly repayment, £
1	15/06/2021	31/08/2021	250	18	51.39
2	13/12/2021	23/05/2022	500	18	102.78
3	22/05/2022	-	730.99	18	150.26

Loans 2 Go rejected Ms H's complaint saying it had lent responsibly, but as a gesture of goodwill it offered to waive all the interest on loan 3. Ms H rejected this offer and brought her complaint to this service.

Ms H says Loans 2 Go did not look into her credit history - she had a County Court Judgment (CCJ) and a serious debt and gambling problem. The lender gave her top up loan after top up loan, and was always emailing her to lend more. She wants a refund with interest, an apology and any negative markers removed from her credit file.

Our adjudicator upheld Ms H's complaint in part and thought Loans 2 Go shouldn't have given loan 3 to Ms H. Loans 2 Go disagreed, saying Ms H had sufficient disposable income to be able to afford the repayments for loan 3. It asked for an ombudsman's review, and so the complaint was passed to me.

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.

We've set out our general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website. Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Ms H's complaint. These two questions are:

1. Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Ms H would be able to repay the loan without experiencing significant adverse consequences?

- If so, did it make a fair lending decision?

- If not, would those checks have shown that Ms H would've been able to do so?

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

The rules and regulations in place required Loans 2 Go to carry out a reasonable and proportionate assessment of Ms H's ability to make the repayments under this agreement. 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 loan would cause significant adverse consequences *for Ms H*. In practice this meant that business had to ensure that making the payments to the loan wouldn't cause Ms H undue difficulty or significant adverse consequences. 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 Ms H.

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.

In light of this, I think that a reasonable and proportionate 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 of time 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).

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Ms H's complaint.

Loans 2 Go has provided evidence to show that before lending it asked for some information from Ms H at the time of each loan. It asked for her monthly income, expenses and employment status. It completed an income verification check with a third-party and checked her living costs against national averages. As a result, for each loan it reduced her declared income slightly and increased her declared expenses. It carried out a credit check to understand her credit history and existing credit commitments. I can't see it asked about the purpose of the loans. Based on these checks Loans 2 Go concluded the loans would be affordable for Ms H.

Loans 1 and 2

I think these checks were proportionate given the value of the loans and their monthly payments relative to Ms H's income. And I think the lender made a fair lending decision based on the information it gathered. I'll explain why.

The credit checks Loans 2 Go completed showed Ms H had debt of £500 (an overdraft) at the time of loan 1 and no debt at the time of loan 2. So it had no reason to think she was over indebted. There was some adverse data on her file, including a CCJ as she says, but none of it was recent and I don't think it would have been fair to decline her application solely based on this historical data given she was showing no reliance on credit at the time. And the affordability checks for both loans 1 and 2 showed Ms H would have enough disposable income to sustainably repay the loans. Ms H says she had serious debt and gambling problems. And I accept this may have been the case, but it wasn't formal debt that showed on her credit file, and given the value of the loans I don't think it would have been proportionate for Loans 2 Go to carry out the depth of checks needed to discover the financial instability she describes.

It follows I don't think Loans 2 Go was wrong to give loans 1 and 2 to Ms H.

Loan 3

I am not wholly persuaded Loans 2 Go's checks were proportionate at this stage given a pattern of repeat borrowing, with increasing loan values, was emerging. But I won't comment further on this as even with the information it gathered, I don't think Loans 2 Go made a fair lending decision. I say this because Loans 2 Go's checks showed Ms H had a verified minimum income of £1,525.10 and expenses of £1,321.50. So after taking on this loan she would left with be just over £60 a month. I think Loans 2 Go ought to have realised this meant there was a high risk she would not be able to make her repayments sustainably – so without suffering some adverse financial consequences.

It follows I think Loans 2 Go was wrong to give loan 3 to Ms H.

I've also thought about whether Loans 2 Go acted unfairly in some other way and I haven't seen any evidence that it did.

Putting things right for loan 3

I think it is fair and reasonable for Ms H to repay the capital amount that she borrowed, because she had the benefit of that lending. But she has paid extra for lending that should not have been provided to her so Loans 2 Go needs to put that right.

It should:

- Remove all interest, fees and charges from the loan and treat all the payments Ms H made as payments towards the capital.
- If reworking Ms H's loan account results in her having effectively made payments above the original capital borrowed, then Loans 2 Go should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- If reworking Ms H's loan account results in there being an outstanding capital balance the lender must try to agree an affordable repayment plan with Ms H.
- Remove any adverse information recorded on Ms H's credit file in relation to the loan.

*HM Revenue & Customs requires Loans 2 Go to deduct tax from this interest. Loans 2 Go should give Ms H a certificate showing how much tax it's deducted, if she asks for one.

My final decision

I am upholding Ms H's complaint in part. Loans 2 Go Limited must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms H to accept or reject my decision before 17 February 2023.

Rebecca Connelley
Ombudsman