

The complaint

Mr B complains 1Plus1 Loans Limited lent to him irresponsibly.

What happened

In September 2016 Mr B applied for, and was given a loan for £1,250, which was repayable over a period of 12 months. The repayments were around £128 a month.

In March 2017 Mr B was given a second loan for £2,000, which was repayable over a period of 18 months. The repayments were around £150 a month. This loan repaid the first loan.

Mr B says 1Plus1 Loans didn't check he could afford the loans before it gave them to him, and it shouldn't have agreed to lend to him. 1Plus1 Loans says it did check whether the loans were affordable, and based on those checks, Mr B had enough disposable income to make the loan repayments.

I issued a provisional decision about this complaint and explained why I didn't think 1Plus1 Loans had done anything wrong by giving Mr B the first loan. I also explained why I thought it had done something wrong by giving him the second loan. I said:

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 approach to complaints about unaffordable and irresponsible lending on our website. I've taken this into account in deciding Mr B's complaint.

1Plus1 Loans needed to take reasonable steps to ensure that it didn't lend to Mr B irresponsibly. It should have completed reasonable and proportionate checks to satisfy itself that Mr B would be able to pay the loan in a sustainable way. Generally, we think it's reasonable for checks to be less thorough – in terms of how much information is gathered and what is done to verify it – in the early stages of a lending relationship.

But we might think more needed to be done if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

Loan 1 (2016)

This was Mr B's first loan with 1Plus1 Loans. It was a relatively small loan, repayable over a relatively short period of time, so a less detailed affordability assessment, with less verification might be reasonable and proportionate.

Because of the time that's passed, 1Plus1 Loans hasn't been able to give us much evidence of the checks it did before giving Mr B loan 1. But I note this was available when it issued its final response letter. I think it's reasonable to rely on what was said in the final response letter about the checks, as the detail hasn't been challenged by Mr B and much of the

information matches, or is similar, to the information we have for loan 2 – and there was only six months between the two loans being taken out.

1Plus1 Loans says it completed some checks to see if the loans were affordable. It asked Mr B for details of his income and expenditure and verified these with third parties. It says it reviewed his credit file to understand his credit history and existing commitments. From these checks combined 1Plus1 Loans concluded that Mr B had enough monthly disposable income to afford the loan.

As I've said, I don't have all the details of what Mr B told 1Plus1 Loans about his income and expenditure when he took out loan 1 but it doesn't look like his circumstances changed significantly between taking out loans 1 and 2 – his income, for example, was the same and he was single, living at home and had no dependents, so his living expenses are likely to be similar.

Based on 1Plus1 Loans' checks for loan 2, it concluded Mr B had a monthly disposable income of over £500, not including the payment for the new loan (or loan 1). It's likely this would have been similar for loan 1 for the reasons I've already explained. So, based on this, it's likely the affordability calculation 1Plus1 Loans did for loan 1 would have shown it was affordable.

We don't know what the credit check 1Plus1 Loans did when agreeing loan 1 showed. But looking at the credit file Mr B provided when he made the complaint to us, it's likely to have shown he was up to date with the payments on all his open accounts. We know from the credit file Mr B gave us that he had taken out a number of high-cost short-term loans in the months leading up to applying for loan 1. But, based on the results 1Plus1 Loans got when it did the credit check for loan 2, it's unlikely these will all have shown on the credit check for loan 1.

To explain, there are three main credit reference agencies (CRA) in the UK. Lenders are not required to report information to all the CRAs, it is up to the lender to decide which CRA they wish to use, if any. 1Plus1 Loans uses one of the main CRAs to do its credit checks, when making decisions about whether to lend – there is nothing wrong with this and I wouldn't expect it to check with all the CRAs. So if another lender hadn't reported information to the CRA 1Plus1 Loans used, details of that credit wouldn't show on the credit check.

It's unlikely there will have been anything in the checks 1Plus1 Loans did to suggest Mr B might have difficulties sustainably repaying loan 1. So I wouldn't have expected it to do any further checks or verification – particularly given the level of borrowing, term of the loan and the lack of any previous lending relationship with Mr B.

I'm currently satisfied that 1Plus1 Loans' checks before approving loan 1 were proportionate. And it's likely the information it gathered suggested Mr B could afford the payments.

Loan 2 (2017)

The checks 1Plus1 Loans did when Mr B approached it again for further borrowing were similar to loan 1. As I've already said, it calculated Mr B had a monthly disposable income of £500 – so based on this, 1Plus1 Loans concluded loan 2 was affordable.

The credit check 1Plus1 Loans did for loan 2 showed he had three credit cards, one loan (not including the first 1Plus1 Loans loan), a catalogue shopping account, a mobile phone account and a bank account. It showed he was up to date with the payments on all of these.

During the conversation Mr B had with 1Plus1 Loans before the loan was approved, he told

it about another, larger loan he had that wasn't showing on his credit check. He confirmed the monthly payments he was making towards this loan but 1Plus1 Loans didn't ask him anything else about it, such as when he'd taken it out or how much he still owed.

He also said he had two outstanding payday loans. He gave details of the outstanding balances, and the monthly payment amounts for these. The details he gave didn't completely match the information about the loan that showed on 1Plus1 Loans' credit check, so it isn't clear if this was an additional loan on top of the ones Mr B mentioned in the call, or whether he'd just misremembered the details about one of this payday loans. 1Plus1 Loans didn't question this any further.

The rules and regulations in place when 1Plus1 Loans lent to Mr B required it to carry out a reasonable and proportionate assessment of whether he could afford to repay the credit he 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 Mr B. 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 Mr B.

Mr B had returned to 1Plus1 Loans to borrow more money just six months after taking out the first loan. And while the loan amount was still relatively small and the term relatively short, when Mr B told 1Plus1 Loans he'd had to take out at least two high-cost loans to get by, I think this should have prompted it to do more checks. From what it knew at that point, it would seem likely Mr B hadn't been able to sustainably repay the previous loan, with its lower monthly payments – he'd needed borrow more money to do this.

Even if 1Plus1 Loans had just asked Mr B a few more questions about the loans he'd mentioned and had asked about any other borrowing he'd had since the previous loan, it would have quickly become apparent Mr B hadn't been able to sustainably repay the first loan and that lending him even more money wasn't responsible. The credit file Mr B has given us shows he'd had many smaller shorter-term loans in the six months since the first loan. He was clearly not in a stable financial situation and was unable to repay what he already owed let alone any new credit.

I'm currently not satisfied that 1Plus1 Loans' checks before approving this loan went far enough – it needed a better understanding of Mr B's credit history and financial situation. But the information it did gather already suggests that Mr B could not afford any further borrowing so 1Plus1 Loans should have declined the application for loan 2.

Neither Mr B nor 1Plus1 Loans responded to my provisional decision by the deadline I set.

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.

As neither 1Plus1 Loans nor Mr B have provided any new evidence or arguments in response to my provisional decision, I see no reason to depart from my provisional findings.

It follows that for the reasons set out here and in my provisional decision, I'm still satisfied that 1Plus1 Loans' checks before approving loan 1 were proportionate. And it's likely the information it gathered suggested Mr B could afford the payments. I'm also still not satisfied that 1Plus1 Loans' checks before approving loan 2 went far enough – it needed a better understanding of Mr B's credit history and financial situation. But the information it did gather

already suggested Mr B could not afford any further borrowing so 1Plus1 Loans should have declined the application for loan 2.

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 Mr B in the position he would now be in if he hadn't been given the second loan in question. However, this isn't straightforward when the complaint is about unaffordable lending.

Mr B was given the loan and he used the money. In these circumstances, I can't undo what's already been done. So, it isn't possible to put Mr B back in the position he would be in if he 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 currently think 1Plus1 Loans should:

- a) Remove all interest, fees and charges applied to his second loan from the outset. The payments Mr B made should then be deducted from the new starting balance. If the payments Mr B has made total more than the amount he was originally lent, then any surplus should be treated as overpayments and refunded to him.
- b) Add 8% simple interest* calculated on any overpayments made, from the date they were paid by Mr B to the date the complaint is settled.
- c) Remove any adverse information recorded on Mr B'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 Mr B a certificate showing how much tax it's deducted, if he asks for one.

My final decision

I do not uphold the complaint about the first loan taken out in 2016 but I do uphold the complaint about the second loan taken out in 2017. 1Plus1 Loans Limited must put things right in the way I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 2 February 2023.

Claire Allison

Ombudsman