

Complaint

Mr S has complained about a loan Loans 2 Go Limited ("L2G") provided to him. He says the loan was unaffordable.

Background

L2G provided Mr S with a loan for £400 in June 2019. The loan had an APR of 1,013.1% and a 18-month term. This meant that the total amount to be repaid of £1,645.56, which included interest, fees and charges of £1,245.56, was due to be repaid in 18 monthly instalments of just over £90.

One of our adjudicators looked at this complaint and thought that L2G didn't act unfairly when providing Mr S with his loan. Mr S disagreed with our adjudicator and so the case was passed forward for an ombudsman to review the complaint.

My provisional decision of 31 January 2023

I issued a provisional decision – on 31 January 2023 - setting out why I was intending to uphold Mr S' complaint. I won't copy that decision in full, but I will instead provide a summary of my findings.

I started by saying that we've explained how we handle complaints about unaffordable and irresponsible lending on our website. And that I used this approach to help me decide Mr S' complaint.

I went on to explain that L2G needed to make sure it didn't lend irresponsibly. In practice, what this means is L2G needed to carry out proportionate checks to be able to understand whether Mr S could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more 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.

I then continued by saying that L2G may have argued that the relatively low payments meant that a light touch assessment was proportionate in this case. But I was mindful that it didn't agree with the declaration of income that Mr S provided. Furthermore, the credit checks it carried out showed that Mr S was in arrears on more than one of his existing revolving credit accounts.

So I was persuaded by what Mr S had said about already being in a difficult financial position at the time. And while it was possible his credit file reflected his choices rather than because

he was struggling, my experience of these types of cases suggested this was unlikely, I was satisfied that further checks would have been proportionate here.

And I thought that if L2G had carried out further checks before providing these loans, it would have seen that Mr S was struggling to manage his finances. Indeed, most of his income was being taken up by his existing living costs and repayments to his existing commitments. Mr S' bank statements also showed that he was incurring unpaid direct debit fees too.

Bearing all of this in mind, I was satisfied that reasonable and proportionate checks would more likely than not have demonstrated that Mr S would not have been able to make the repayments to this loan without borrowing further and/or suffering undue difficulty. And, in these circumstances, I found that reasonable and proportionate checks would more likely than not have alerted L2G to the fact that Mr S was in no sort of position to make the payments to this loan without suffering significant adverse consequences.

As L2G provided Mr S with this loan, notwithstanding this, I was minded to conclude that it failed to act fairly and reasonably towards him. Mr S ended up paying interest, fees and charges on a loan he shouldn't have been provided with. So finished by saying that I was intending to find that Mr S lost out because of what L2G did wrong and that it needed put things right.

Responses to my provisional decision

Mr S confirmed that he accepted my provisional decision and that he had nothing further to add.

L2G responded confirming that it disagreed with my provisional decision. In summary it did so because:

- it verified that Mr S received a minimum of £1,561.00 a month. He may well have received more than this.
- the credit reports were on the whole positive.
- the bank statements in the months leading up to the application showed anything to indicate that the loan was unaffordable.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I thank the parties for their responses.

L2G says that it considered Mr S received a minimum of £1,561.00 not that this is all he received. But it's still fair to say that this is less than the amount Mr S declared. Furthermore, while I appreciate that L2G may have been prepared to accept the credit risk presented by the information from Mr S' credit file, I still think that the arrears on more than one revolving credit account ought to have prompted further checks into Mr S' ability to repay a loan on such disadvantageous terms.

Finally, I've considered the bank statements provided. And having done so, I've seen payday lending on them and at least one returned direct debit in the lead up to the loan being provided. What's more, it's clear that the balance Mr S has left in his account – which he didn't have an overdraft on – at the each of each statement period is less than the monthly

payment he was required to make for this loan. So the further information provided doesn't persuade me that the loan was affordable.

Overall and having considered the further representations made in response to my provisional decision of 31 January 2023, I remain satisfied that L2G didn't act fairly and reasonably towards Mr S as it provided him with an unaffordable loan. And so I'm still upholding Mr S' complaint.

Fair compensation – what L2G needs to do to put things right for Mr S

Having thought about everything, I think that L2G should put things right for Mr S by:

- refunding all interest, fees and charges Mr S paid on his loan;
- adding interest at 8% per year simple on any refunded payments from the date they were made by Mr S to the date of settlement†
- removing all adverse information about this loan from Mr S' credit file.

† HM Revenue & Customs requires L2G to take off tax from this interest. L2G must give Mr S a certificate showing how much tax it has taken off if he asks for one.

My final decision

For the reasons I've explained and in my provisional decision of 31 January 2023, I'm upholding Mr S' complaint. Loans 2 Go Limited should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 21 March 2023.

Jeshen Narayanan
Ombudsman