DRN-4003174

The complaint

Miss B, through her representative, complains that Loans 2 Go Limited lent to her irresponsibly.

What happened

Loans 2 Go approved Miss B for a loan on 2 December 2019 for £700. The repayments of £159.99 a month (so just under £160) for 18 months were due to start on 1 January 2020 and end 1 June 2021. The total to repay was £2,879.82. As of 5 August 2022 Miss B still owed Loans 2 Go just under £1,521.

Almost immediately Miss B – in January 2020 - declared she'd have to go into a repayment plan and has been paying relatively small amounts each month since then.

Miss B complained to Loans 2 Go on 30 June 2022 and received its final response letter (FRL) on 19 July 2022. It gave reasons why it did not consider it had done anything wrong when it approved the loan. But it said that as it could see that Miss B's finances were poor in 2022 – when she was complaining – and so Loans 2 Go offered to reduce the interest still due by 35%. That translated into a write-off of around £763 and left a smaller outstanding balance of around £795 to pay.

The complaint was referred to the Financial Ombudsman Service by Miss B's representative on 19 September 2022 and so it seems that offer was rejected.

One of our adjudicators looked at the complaint in November 2022 and thought that Loans 2 Go was aware that Miss B was using a very high proportion of her income to repay all her credit commitments including its own loan and so he thought that Loans 2 Go ought not to have lent to Miss B in 2019.

Loans 2 Go responded to give reasons why it disagreed, all of which I have reviewed.

The unresolved complaint was passed to me to decide.

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 the relevant rules, guidance, and good industry practice - on our website.

Considering the relevant rules, guidance, and good industry practice, what I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are whether Loans 2 Go completed reasonable and proportionate checks to satisfy itself that Miss B would be able to repay in a sustainable way? And, if not, would those checks have shown that Miss B would've been able to do so?

If I determine that Loans 2 Go did not act fairly and reasonably in its dealings with Miss B and that she has lost out as a result, I will go on to consider what is fair compensation.

The rules and regulations in place required Loans 2 Go to carry out a reasonable and proportionate assessment of Miss B'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 be sustainable and/or cause significant adverse consequences for Miss B. In practice this meant that Loans 2 Go had to ensure that making the payments to the loan wouldn't cause Miss B 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 Miss 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 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 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 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 the arguments, evidence and information provided in this context and what this all means for Miss B's complaint. I've decided to uphold Miss B's complaint and I give my reason here.

Loans 2 Go, as it has accepted in its FRL, knows that it lends to a 'sub-prime' market and so it is aware of the potential concerns a customer may have when they apply to it for a loan.

Here, Miss B's loan was not big, but her application details were that she earned £2,900 each month as take home pay and her outgoings were only £475 a month. Loans 2 Go carried out checks and has said that it increased her outgoings to £1,929 and reduced her income to around £2,380. My view is that alone ought to have alerted Loans 2 Go to there being an issue. Miss B had a great deal more debt and expenditure commitments (including credit commitments) than she had told it when she applied.

Loans 2 Go carried out a credit search and I have been sent a summary of the results of that search. Reviewing it I can see that Loans 2 Go knew she had almost £18,000 of debt, of which two were payday loans. Miss B had 17 active accounts and her credit card percentage usage had increased to 93%.

Loans 2 Go had increased Miss B’s expenditure figure from the declared amount of £475. It said in its FRL:

> *‘Following an extensive review of their application, in addition to their credit file, we calculated their total expenditure to be about £1,928.80’*

I accept some of the points made by Loans 2 Go in its defence of this complaint: that Miss B had no insolvency entries and she had no missed payments. But I consider that the information Loans 2 Go had, showed she was overindebted and this loan was the latest of several she’d applied for and obtained in the months before she had approached Loans 2 Go.

To demonstrate, I list here the information I have gathered from the credit search that Loans 2 Go did in 2019:

- Two payday loans costing £17 and £50 each month
- Two credit cards: one of which had a £1,138 balance on a £1,175 limit and other had a £1,831 balance on a £2,150 limit. At, say 3% minimum repayment that would translate into around £89 each month for them both.
- She had a bank loan – recently obtained in March 2019 costing £216 each month and a large balance on it
- She had a finance house loan costing £217 a month which had commenced July 2019.
- She had a loan costing her £197 a month
- Her telecoms contract was for £21 a month
- Miss B had a hire purchase (HP) account with a balance at that time of £9,425 which had commenced in March 2016 costing £344 a month.
- Three option accounts which were costing her £38, £91 and £28 each weekly (not monthly according to the search results). That adds up to £157 each week, which equals £680 a month. But as I do not fully know what these option accounts were, I plan to use the figure of £157 for the month (not week) to demonstrate to Loans 2 Go that she was overindebted using that lower figure.

All those added up to total credit commitments of £1,308. Using the income Loans 2 Go had identified as being the minimum amount she received each month (although I’ve seen no details on the income figures) of £2,380 then that would mean Miss B was already committed to spend 55% of her net income before the Loans 2 Go loan.

I consider that to have been too high.

And this £1,308 figure would have excluded any rent or mortgage and household bills costs, transport, insurances, and other obvious outgoings. The percentage I have calculated was just for credit commitments. With the Loans 2 Go loan that increased to £1,468 which would have been 61%.

And this was borne out by the fact that in January 2020 Miss B was telling Loans 2 Go she was going into a debt management plan from 8 January 2020 which was just one week after her first instalment date had been due.

My view is that Miss B was not able to afford this loan and repay the instalments sustainably for 18 months. And Loans 2 Go had obtained its own information and had done enough to recognise that fact. Despite this, it lent to her.

I uphold Miss B’s complaint.

Putting things right

Loans 2 Go needs to put things right for Miss B as follows:

- Remove all interest, fees and charges applied to the loan,
- Treat any payments made by Miss B as payments towards the capital amount of £700,
- If Miss B has paid more than the capital then any overpayments should be refunded 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 Miss B or allow the existing one to continue.
- Remove any adverse information about the loan from Miss B's credit file.

* HM Revenue & Customs requires Loans 2 Go to take off tax from this interest. It must give Miss B a certificate showing how much tax it's taken off if she asks for one.

My final decision

My final decision is that I uphold Miss B's complaint and I direct that Loans 2 Go Limited does as I have said in the 'putting things right' part of the decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 11 April 2023.

Rachael Williams
Ombudsman