DRN-4007203

The complaint

Ms M says Loans 2 Go Limited irresponsibly lent to her.

What happened

Loans 2 Go gave Ms M four loans, a summary follows:

loan	date	value, £	term in months	monthly repayment, £
1*	12/01/2021	250	18	57.14
2*	29/01/2021	810	18	185.13
3	01/04/2021	250	18	57.14
4*	29/04/2021	1000	18	228.56

*Ms M withdrew from loans 1, 2 and 4 within days of receiving the funds.

Ms M says the loans were unaffordable and left her in a cycle of debt. This impacted her mental health which led to time off work leaving her with more money problems.

Our investigator upheld Ms M's complaint. He said from loan 1 there were signs Ms M was having problems managing her money and so Loans 2 Go should not have lent to her.

Unhappy with this assessment, Loans 2 Go asked for an ombudsman's review. It said Ms M's credit reports were on the whole positive - some adverse information is to be expected given the type of lending it provides. All loans were either settled early or withdrawn and there was never any indication of financial difficulty.

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 M's complaint. These two questions are:

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

- If so, did it make fair lending decisions?
- If not, would those checks have shown that Ms M 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 M's ability to make the repayments under these agreements. 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 loans would cause significant adverse consequences for Ms M. In practice this meant that business had to ensure that making the payments to the loan wouldn't cause Ms M 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 M.

Checks also had to be proportionate to the specific circumstances of each 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 M's complaint.

Loans 2 Go has provided evidence to show that before lending it asked for some information from Ms M. It asked for her monthly income and 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 M.

I think these checks were largely proportionate given the loan values and the monthly repayment relative to Ms M's declared income, although a fuller review may have been needed for loan 4. However, I won't comment further on this as even based on the information it gathered, I don't think Loans 2 Go made fair lending decisions. I'll explain why.

Loan 1

The results from the credit check showed that Ms M was in an arrangement to pay on her overdraft which was at its limit. She was also close to her credit limit on four credit cards, one of which had only been open for three months. So I think it was clear Ms M was under financial pressure, and there was a high risk she was borrowing to repay other debt. In addition, I can't see Loans 2 Go got the assurances it needed that Ms M would be able to repay this loan sustainably – so without borrowing to repay. From its checks it seems most likely that she would be reliant on her overdraft facility to make the repayments.

It follows I think Loans 2 Go was wrong to give loan 1 to Ms M.

Loans, 2 ,3 and 4

As Ms M's further applications were made in quick succession I would want Loans 2 Go to have found that her financial circumstances had stabilised before agreeing to lend. I can't see that was the case from the checks it did. Ms M remained overdrawn and in an arrangement to pay when she applied for loans 2 and 3. And whilst she was out of the arrangement by the time she applied for loan 4, she remained £1,500 overdrawn – which was her limit. So I can't see that Loans 2 Go could conclude with any certainty that Ms M would be able to repay any further debt without relying on her current account borrowing facility. So even if the loans seemed affordable on a pounds and pence basis, I can't agree the checks showed Ms M would be able to repay the debt sustainably.

Loans 2 Go argues that all loans were either withdrawn or early settled and there were never any indications of financial difficulties. But it has not evidenced that it knows Ms M made the repayments she did without suffering any adverse financial consequences. I also think from her pattern of application and rapid withdrawal it ought to have considered she was struggling to manage her money.

It follows I think Loans 2 Go was wrong to give loans 2, 3 and 4 to Ms M.

I have then considered if Loans 2 Go acted unfairly or unreasonably in some other way. I don't think that it did. Ms M raised that the interest rate charged was too high. I accept the APR was high, but Ms M had to actively engage in the application process, so I think it's likely that she was aware of what he was agreeing to pay. I haven't seen anything which makes me think that Loans 2 Go treated Ms M unfairly or breached industry practice regarding interest charges. But the interest and charges will be refunded anyway as it has been agreed the loans shouldn't have been given.

Finally, I am sorry that Ms M's financial position has impacted her mental health. I hope she now has the support she needs. If not, there are organisations that can help with free debt advice – such as Step Change on 0800 138 1111, and with mental health and wellbeing - such as MIND on 0300 123 3393.

Putting things right

I think it's fair and reasonable for Ms M to have repaid the capital that she borrowed, because she either had the benefit of that money or withdrew from the agreement. But she has paid interest and charges on loans that shouldn't have been provided to her.

Loans 2 Go should:

- Remove all interest, fees and charges from the loans and treat all the payments Ms M made as payments towards the capital.
- Where reworking Ms M's loan accounts 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*.
- Remove any adverse information recorded on Ms M's credit file in relation to the loans.

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

My final decision

I am upholding Ms M's complaint. 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 M to accept or reject my decision before 5 June 2023.

Rebecca Connelley
Ombudsman