

## The complaint

Mrs M complains that Loans 2 Go Limited lent to her irresponsibly.

## What happened

Mrs M applied for and received the following loans from Loans 2 Go:

	Date	Amount	Term	Monthly repayment	APR	Total repayable
<b>Loan 1</b>	24 Aug 2019	£1,000	18 months	£228.56	1,013.2%	£4,114.08
<b>Loan 2</b>	3 Feb 2021	£500	18 months	£114.28	1,013.2%	£2,057.04

Mrs M complained to Loans 2 Go saying it didn't complete "*appropriate due diligence*" on her applications. If it had, she says, it ought to have refused to lend to her.

Loans 2 Go looked into her complaint and rejected it. It said it had followed its usual process which included verifying her income and checking her credit report by using a credit reference agency. It also looked at information provided by the Office of National Statistics (ONS) which provides national averages for household expenditure. It said it was confident Mrs M could afford each loan at the time it was agreed.

Mrs M didn't agree with Loans 2 Go and referred her complaint to our service. One of our investigators looked into it. He said the information Loans 2 Go obtained shows Mrs M was unlikely to have been able to repay either loan sustainably. He upheld the complaint and explained how Loans 2 Go should put things right for Mrs M.

Mrs M accepted what our investigator said, but Loans 2 Go only agreed regarding Loan 2. It felt its decision to lend Loan 1 was reasonable. It said Mrs M had no County Court Judgements (CCJ's) and her existing credit commitments were either repaid or up to date. As there was no agreement, the complaint has been passed to me for a final decision.

## 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.

I'm pleased to see Loans 2 Go have agreed with our investigator regarding Loan 2. By doing so, it has accepted our methodology for this type of complaint – which is also on our website - so I'll not restate it here. Instead I'll concentrate on my decision regarding Loan 1.

When she applied for Loan 1, Mrs M declared a monthly income of £2,800 and expenses of £750 per month. Following its checks, Loans 2 Go used an income of £2,549 and expenses of £2,040. So on a purely pounds and pence basis, a monthly repayment of £228.56 for the loan seemed to be affordable for Mrs M. But the purpose of the checks Loans 2 Go had to carry out are not solely to ensure pounds and pence serviceability of a loan, but to ensure any borrowing is sustainable for the applicant. That is, they should be able to repay the credit without undue difficulty, while being able to meet other commitments and without

having to borrow further.

Mrs M's credit report Loans 2 Go used at the time of the application shows she had a credit score of 362. The agency used classes this as a "poor" score. I acknowledge that Loans 2 Go specialises in lending to consumers with impaired credit ratings, so this alone wouldn't have given it any major cause for concern. But a closer look at her report shows she had several other forms of credit such as loans, credit cards, mail order and an overdraft totalling almost £23,000. She was currently up to date with payments to all her accounts, but she was up to the limit on all her credit card and mail order accounts as well as her overdraft (a total of 12 accounts). She had short term loans outstanding – one of which had been taken a month before this application.

So the picture I see is someone who has a high level of debt and is taking short term loans in order to manage her finances. She was using 100% of credit available to her and continuing to borrow from short term lenders. She then applies for a modest loan of £1,000 at a very high rate of interest with large monthly payments. I don't think this shows someone in control of their finances and with the ability to take on a further commitment of £228 per month sustainably. Adding in a further credit commitment of almost 10% of her monthly income alone, was very unlikely to be sustainable when the extent of her credit elsewhere is factored in.

I don't think that Loans 2 Go's argument that she didn't have any CCJ's and was up to date with her existing commitments is sufficient to say it reached a fair decision to lend. A CCJ will only generally be issued by a court after a debt has defaulted and the lender hasn't been able to collect the debt. While the absence of CCJ's is clearly a good thing, I don't think it's a benchmark for deciding whether a new loan is sustainably repayable. Furthermore, while it's true that Mrs M was up to date with her current commitments, it can be seen that she had recently taken out short term loans in order to achieve this. In my view, this shows her borrowing was already becoming unsustainable.

Overall I think Loans 2 Go should have refused to lend Loan 1 to Mrs M. It was evident she was relying on credit to meet her expenditure which is unsustainable.

Loans 2 Go has already agreed it shouldn't have lent Loan 2, so I'll not comment further on that loan. For completeness however, I've included it in what I believe to be a fair way of resolving this complaint.

### **Putting things right**

When I find that a business has done something wrong, I'd normally direct that business to put the complainant in the position they would be in now if the mistake it made hadn't happened, as far as is reasonably practical.

In this case, that would mean putting Mrs M in the position she would be in now if she hadn't been given the loans. But Mrs M was given the loans and used the money, so it's right she should repay what she borrowed.

So, I think Loans 2 Go should:

- Calculate the total amount Mrs M received from Loans 2 Go and deduct from that figure the repayments she's made to each loan.
  - If this results in Mrs M having repaid more than she received, any overpayments should be refunded to her. Interest at a rate of 8% simple per

year should be added to any overpayments from the date they were made until the date of settlement\*.

- If the calculation means there's still a balance for Mrs M to pay, Loans 2 Go should let her know how much is outstanding and reach a suitable, affordable payment plan with her. I remind Loans 2 Go of its obligation to treat customers fairly.
- Remove any negative information recorded on Mrs M's credit file regarding each loan.

\*If Loans 2 Go considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mrs M how much it's taken off. It should also give her a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.

### **My final decision**

My final decision is that I uphold this complaint. Loans 2 Go Limited should put things right for Mrs M as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 3 July 2023.

Richard Hale  
**Ombudsman**