DRN-4108581

The complaint

Miss S says Loans 2 Go Limited irresponsibly lent to her.

What happened

Miss S took out a 24-month instalment loan for £1,200 on 22 November 2021. The monthly repayments were £161.66 and the total repayable was £3,878.40. Miss S is now in a debt management plan (DMP).

Miss S says Loans 2 Go did not complete proper checks; the loan was unaffordable for her. The lender also continued to take the full contractual repayment as well as the reduced payment via her DMP administrator each month.

Our investigator upheld Miss S's complaint in part. He issued two assessments; I will focus here on the most recent. He agreed the lending was irresponsible as Loans 2 Go's checks were not proportionate and better checks would have shown the loan would not be sustainably affordable for Miss S. However, he found that there was no evidence Loans 2 Go had been taking contractual payments after having agreed to accept reduced monthly payments as part of Miss S's DMP.

Miss S accepted this assessment, but added payments from her DMP have been made so she is now concerned where they have gone. Loans 2 Go disagreed that it had lent irresponsibly. It said it completed adequate checks that showed the loan would be affordable for Miss S. Miss S's credit check showed she was managing her existing credit without problems and so further checks were not necessary. It acknowledged there was some adverse data but this would be expected based on the type of lending it provides.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The rules and regulations when Loans 2 Go lent to Miss S required it to carry out a reasonable and proportionate assessment of whether she could afford to repay what she owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So Loans 2 Go had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Miss S. 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 S.

Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up 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 and cost of credit they have applied for. In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the lower a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the longer the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether Loans 2 Go did what it needed to before agreeing to lend to Miss S. So to reach my conclusion I have considered the following questions:

- did Loans 2 Go complete reasonable and proportionate checks when assessing Miss S's loan application to satisfy itself that she would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did Loans 2 Go make a fair lending decision?
- did Loans 2 Go act unfairly or unreasonably in some other way?

I can see Loans 2 Go asked for some information from Miss S before it approved the loan. It asked for her monthly income which she said was £2,350. It checked her declared income using an income verification tool and reduced it accordingly to £1,846.70. It estimated her monthly expenditure to be £1,499.90 using both national statistics and the credit commitments it could see on the credit check it completed. From these checks combined Loans 2 Go concluded Miss S had enough disposable income for the loan to be affordable.

Whilst I think these checks were initially proportionate, once Loans 2 Go had the results of the credit check I think it ought to have carried out a fuller financial review. I say this as it could see Miss S's credit utilisation was 100%, and this had increased significantly over the last six months from 40%; she had recent arrears and had taken out two new loans in the last four months. Miss S also had a history of using payday loans. So, in the round, I think there were possible indicators of financial pressure. I am not saying these factors on their own meant Loans 2 Go should not have lent to Miss S, rather that it should have looked more closely at her financial situation before proceeding.

Loans 2 Go disagrees, arguing its checks showed Miss S had enough disposable income. But it was required to go beyond pounds and pence checks and get the assurances it needed that the repayments would not be financially detrimental to Miss S in any way. It was also aware that Miss S had declared a higher level of income and a lower level of expenditure than its checks showed which ought to have been another reason for verifying her actual financial position.

In cases like this we review bank statements from the three months prior to the loan application. I am not saying Loans 2 Go had to do this, but it is a way for me to recreate what better checks would most likely have shown. The statements show that Miss S was struggling financially, and her essential outgoings exceeded her income. As the investigator set out, Miss C was borrowing on average £800 a month and repaying £985 to her various creditors - so it is a fair assumption that she would most likely need to borrow to repay this additional debt. There is no evidence this loan was for debt consolidation which might have changed this picture – the purpose was recorded as 'other' at application. So had Loans 2 Go carried out better checks it would have realised there was a high risk the loan would not be sustainably affordable for Miss S.

It follows I think Loans 2 Go was wrong to give this loan to Miss S.

Did Loans 2 Go act unfairly or unreasonably in some other way?

I don't find it did. Miss S said Loans 2 Go had been taking both her contractual repayment and a reduced payment via her DMP. I can see Miss S's last contractual payment was taken on 29 July 2022 and on that same date Miss C emailed to cancel her continuous payment authority. This was done by 10 August 2022. Her loan statement of account does not show any other credits in the form of a reduced payment either before or after this date. And Loans 2 Go has evidenced whilst it agreed to breathing space via her DMP administrator, it has never agreed to a reduced payment onto the account. So based on the available evidence I can't see that Loans 2 Go has been taking two payments.

As our investigator advised, Miss S should contact her DMP administrator and ask it to trace the payments. If it transpires Loans 2 Go has acted in error, rather than the administrator, she should raise a new complaint to allow it to investigate.

Putting things right

I think it's fair and reasonable for Miss S to repay the capital that she borrowed, because she had the benefit of that money. But she has paid interest and charges on a loan that shouldn't have been provided to her.

Loans 2 Go should now:

- Remove all interest, fees and charges from the loan and treat all the payments Miss S made as payments towards the capital.
- If reworking Miss S's loan account 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*.
- If reworking Miss S's loan account results in there being an outstanding capital balance Loans 2 Go must try to agree an affordable payment plan with Miss S via her DMP administrator.
- Remove any adverse information recorded on Miss S's credit file in relation to the loan once any capital owing is repaid.

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

My final decision

I am upholding Miss S'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 Miss S to accept or reject my decision before 31 May 2023.

Rebecca Connelley
Ombudsman