

Complaint

Mr S has complained about loans Loans 2 Go Limited (“L2G”) provided to him. He says the loans were unaffordable.

Background

L2G provided Mr S with an initial loan for £1,000.00 in July 2020. The loan had an APR of 1,013.2% and an 18-month term. This meant that the total amount to be repaid of £4,114.08, which included interest, fees and charges of £3,114.08, was due to be repaid in 28 monthly instalments of £228.56.

Mr S was then provided with a second loan for £1,340.00 in December 2020. £793.13 of the funds from this loan went towards settling the balance on loan 1. This loan had an APR of 253.7% and a 24-month term. This meant that the total amount to be repaid of £3,880.56, which included interest, fees and charges of £2,540.56, was due to be repaid in 24 monthly instalments of £161.69.

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

My provisional decision of 19 April 2023

I issued a provisional decision – on 19 April 2023 - setting out why I intended 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 out by saying that we’ve set out our general approach to complaints about unaffordable/irresponsible lending - including the key rules, guidance and good industry practice - on our website. And that I had used this approach to help me decide Mr S’s complaint.

I explained 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.

L2G said that it carried out an income and expenditure assessment with Mr S prior to providing him his loans. It also carried out credit checks. L2G's said its checks suggested Mr S had more than enough to cover the payments to these loans and so it was reasonably entitled to lend.

I carefully considered what L2G said. But the credit check information L2G obtained showed that Mr S had had difficulties with credit in the past. He had a default and three active county court judgments. And the position hadn't improved by the time he took out loan 2 either. Furthermore, I was mindful that L2G's own calculations suggested that the payments these loans would take Mr S right to the margin of his calculated disposable income.

So I was persuaded by what Mr S has said about already being in a difficult financial position at the time. And while I thought it was possible that his existing difficulties reflected his choices rather than because he was struggling, I added that my experience of these types of cases suggest this is 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.

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 these loans 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 these loans without suffering significant adverse consequences.

As L2G provided Mr S with these loans, 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 loans he shouldn't have been provided with. So I concluded by saying that it was my intention to find that Mr S lost out because of what L2G did wrong and that it needed to put things right.

Responses to my provisional decision

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

L2G responded to say that it didn't agree with my decision. In essence, it believed that the CCJs and defaults were not reasons to have declined Mr S' application.

In L2G's view it would not have been reasonable to base its lending decision solely on the markers given two of the CCJs were satisfied and the third occurred more than two years before the application. Furthermore, the defaults were also historic.

My findings

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

L2G says that the adverse information on its own wasn't a reason to decline Mr S' loan applications. I agree with L2G on this point. But I think that it misunderstood the findings in my provisional decision.

I say this because it wasn't my conclusion that L2G should have automatically declined Mr S' applications because of the adverse information. I thought that the adverse information, together with its lack of confidence in Mr S' declared income as well Mr S' application for a second loan on such disadvantageous terms all meant that L2G needed to take a closer look at Mr S' ability to make the payments to these loans.

And if L2G had carried out further checks into Mr S' circumstances, it would have seen that he was unlikely to make his payments without borrowing further of experiencing significant adverse consequences. As this is the case, L2G's further points haven't persuaded me to alter the conclusions I reached in my provisional decision.

So I'm still upholding Mr S' complaint. And I remain satisfied that L2G needs to put things right.

Fair compensation – what I think 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 loans;
- 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 it may have recorded about these loans 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 above and in my provisional decision of 19 April 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 2 June 2023.

Jeshen Narayanan
Ombudsman