

The complaint

Mr N says Loans 2 Go Limited lent to him irresponsibly.

What happened

Mr N applied for and received three loans from Loans 2 Go:

	Date	Amount	Term	Monthly Repayment	APR	Total Payable
Loan 1	9 Feb 2019	£400	18 months	£91.42	1,013.1%	£1,645.66
Loan 2	29 Sept 2019	£647.35	18 months	£147.96	1,013.3%	£2,663.28
Loan 3	20Jan 2022	£400	18 months	£82.22	£769.9%	£1,478.96

Mr N says Loans 2 Go didn't properly check he could afford the repayments on the loans. He says this has led to him continually needing loans to meet his monthly expenses. He complained to Loans 2 Go.

Loans 2 Go looked into Mr N's complaint. It said it had followed its usual process for each loan. This included using a credit reference agency to check his credit file and verify his income, and the use of statistical data to provide an amount for his expenditure. Having done so, it was satisfied that each of the loans was affordable for Mr N, and it rejected his complaint.

Mr N was unhappy with the response he received so he referred his complaint to us. One of our investigators looked into it. He felt it wasn't unreasonable for Loans 2 Go to lend Loan 1 to Mr N, but Loans 2 and 3 were lent irresponsibly. He upheld Mr N's complaint and asked Loans 2 Go to put things right for Mr N regarding Loans 2 and 3.

Mr N accepted our investigator's recommendation, but Loans 2 Go didn't. It said Mr N's *"credit reports were on the whole very positive"* and suggested any issues Mr N had with his finances had *"been largely overcome and [Loans 2 Go] cannot say that the situation had got significantly worse since Loan 1 was issued."*

As there was no agreement, Mr N's complaint has been passed to me for a 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.

Having done so, I issued my provisional decision because I don't agree with our investigator. I said:

"I asked Loans 2 Go to take another look at Mr N's complaint. I'm pleased to say that on reflection, it agreed to make an offer to Mr N for Loan 3. But it maintained its position regarding Loans 1 and 2. Mr N rejected Loans 2 Go's offer."

I think Loans 2 Go was right to make an offer on Loan 3, so I'll focus my decision on the first

two. We've set out our approach to complaints about high-cost credit on our website - including the key relevant rules, guidance, good industry practice and law. I've considered this approach when deciding this complaint.

Loans 2 Go had to carry out reasonable and proportionate checks to satisfy itself that Mr N would be able to repay the loan sustainably. That means he should be able to repay the credit without undue difficulty, while being able to meet other commitments and without having to borrow further. It's not about Loans 2 Go assessing the likelihood of it being repaid, but it had to consider the impact of the loan repayments on Mr N.

Loan 1

Loans 2 Go says it used an automated process to verify Mr N's income and statistical data to work out what it believed to be his expenditure. During the verification process, Mr N's income was reduced from the £1,800 he declared to £1,295. In other words, Loans 2 Go felt Mr N was earning around £500 a month less than he'd declared. Given he was looking to borrow £400, it would seem a logical step to find out more about the disparity in what Mr N felt he was earning and what was evident from the check Loans 2 Go had undertaken.

Further, Loans 2 Go worked out his expenditure using national averages provided by the Office of National Statistics (ONS). While there's nothing wrong with a lender using such a tool, it must recognise that not all borrowers will conform to the average. The nature of an average is that some will spend more while others will spend less.

I think it might've been sensible for Loans 2 Go to do more to check his income and expenditure, but in view of the size of the loan I think the checks carried out on Mr N's application were reasonable and proportionate. But simply carrying out the checks, isn't sufficient to say that the lending agreed was responsible. The lender has a duty to consider the information it receives to ensure the borrowing is sustainable for the borrower. Having looked closely at the information Loans 2 Go gathered for Mr N, I don't think the borrowing was sustainable. Let me explain why.

I note that the reference agency used here returns credit scores up to 1,000; the higher the score, the more 'credit worthy' the consumer is. Anything less than 531 is considered as a 'poor' score. Looking at Mr N's credit file, at the time of his application for Loan 1, Mr N's score was 343 – a poor score. But I acknowledge that Loans 2 Go specialise in lending to consumers with less than perfect credit ratings, so a poor score in itself doesn't mean the lending was unreasonable, but it is something I'd expect any lender to take into account.

It is clear from his file that Mr N was regularly using short term credit such as payday loans and was at (or very close to) limits he had on credit cards. While he didn't have an active payday loan at the time of his application for Loan 1, he had closed one less than a fortnight earlier for £400 and had been in arrears on that loan.

Mr N had taken a credit card at the end of November 2018 (just 10 weeks or so prior to this loan) and had been given a credit limit of £1,200. By the time he made his application for Loan 1, his balance was recorded as £1,192. He had other credit cards too with combined limits of £1,990, and balances totalling £1,754. So he was essentially up to his credit limits - one of which was very new - and was regularly taking short term loans. It seems to me that Mr N was showing signs of financial pressure and was cash hungry.

There is no evidence that he would be able to sustainably cope with a further financial commitment of £91 as required by this new loan. I don't think Loans 2 Go should have agreed to lend Loan 1 to Mr N.

Loan 2

By the time of his application for this loan, Mr N's situation had worsened. His credit score had fallen to 274. He'd taken further short-term loans – one of which remained outstanding – and had been in an arrangement to pay on another. He remained at or very near to his credit card limits. Overall his indebtedness had gone up by around £800 and he was looking to increase this further.

Again, while the checks were proportionate to the size of the loan being requested, I don't think there were any signs that the borrowing could be repaid sustainably by Mr N. I don't think Loans 2 Go should have agreed to lend to him.

Loan 3

Mr N's situation had continued to worsen by the time he applied for this loan. His credit score had dropped to 181 and his indebtedness had increased by over £1,500. As I've mentioned above, Loans 2 Go has agreed to make an offer to Mr N for this loan. I think that's right, but for the avoidance of doubt, I've included this loan in the redress I propose below.

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 Mr N in the position he would be in now if he hadn't been given the loans. But Mr N was given the loans and used the money so it's right he should repay what he borrowed. But I don't think Loans 2 Go should benefit from that through interest and charges. So I think Loans 2 Go should:

- *add up the total amount of money Mr N received as a result of having been given all three loans. The repayments Mr N made should be deducted from this amount.
 - *If this results in Mr N having paid more than he received, then any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement).**
 - *If there's an outstanding balance for Mr N to pay, Loans 2 Go should reach an affordable payment plan with him. I remind Loans 2 Go of its obligation to treat Mr N fairly.**
- *Loans 2 Go should remove any negative information recorded on Mr N's credit report regarding all three loans.*

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

Both Loans 2 Go and Mr N have accepted my provisional decision, so I see no reason to depart from it.

My final decision

For the reasons given above, I uphold this complaint. Loans 2 Go Limited should put matters right for Mr N as I've set out.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr N to accept or

reject my decision before 8 June 2023.

Richard Hale
Ombudsman