

Complaint

Mr B has complained about personal loans Loans 2 Go Limited ("L2G") provided to him. He says the loans were unaffordable and were therefore irresponsibly lent to him.

Background

L2G provided Mr B with a loan for £250 in October 2018. This loan had an APR of 990.1% and a term of 18 months. This meant that the total amount to be repaid of £1,019.52, including interest, fees and charges of £769.52, was due to be repaid in 18 monthly instalments of £56.64. This loan was settled early, in March 2019, with some of the proceeds of loan 2.

Mr B was then provided with a second loan for £413.39 in March 2019. £163.39 of the funds of this loan were used to repay loan 1. This loan had an APR of 1013.1% and a term of 18 months. This meant that the total amount to be repaid of £1,700.64, including interest, fees and charges of £1,287.25, was due to be repaid in 18 monthly instalments of £94.48. This loan was settled early in June 2019.

In December 2019, Mr B was provided with a third loan for £1,000.00. This loan had an APR of 1,013.2% and a term of 18 months. This meant that the total amount to be repaid of £4,114.08, including interest, fees and charges of £3,114.08, was due to be repaid in 18 weekly instalments of £228.56. This loan was settled early in February 2020 with some of the proceeds from loan 4.

Finally, L2G then provided Mr B with a fourth loan for £1,000.00 in February 2020. This loan had an APR of 1,013.2% and a term of 18 months. This meant that the total amount to be repaid of £4,114.08, including interest, fees and charges of £3,114.08, was due to be repaid in 18 weekly instalments of £228.56.

One of our investigators reviewed Mr B's complaint and thought that L2G ought to have realised that it shouldn't have provided Mr B with any of these loans. L2G accepted in relation to loans 1 and 2 but disagreed with our investigator's assessment on loans 3 and 4. So the case was passed to an ombudsman for review.

As the parties are in agreement with the outcome on loans 1 and 2 this decision is only looking at whether L2G acted fairly and reasonably when providing loans 3 and 4.

My findings

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

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr B's complaint.

Having carefully considered everything I've decided to uphold Mr B's complaint. I'll explain why in a little more detail.

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 B 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.

I'm concerned that L2G's own checks in the lead up to loan 3 showed that he'd had recent payment difficulties in the form of some missed payments and one account that had recently been in an arrangement to repay arrears and another that was over its credit limit.

Furthermore, Mr B also had a number of defaults on his credit file – albeit some of these were historic. And the amount Mr B was seeking to borrow for loans 3 and 4 was significantly more than that for loans 1 and 2 which were taken only months early and L2G already accepts that these loans shouldn't have been provided to Mr B.

Bearing in mind all of this, I'm satisfied that L2G needed to do more to establish that Mr B could make the monthly repayments to loans 3 and 4 before agreeing to lend to him. As L2G didn't do this, I'm satisfied that the checks it carried out before providing these loans weren't reasonable and proportionate.

Mr B has now provided us with evidence of his financial circumstances at the time he applied for loans 3 and 4. Of course, I accept different checks might show different things. And just because something shows up in the information Mr B has provided, it doesn't mean it would have shown up in any checks L2G might have carried out.

But in the absence of anything else from L2G showing what this information would have shown, I think it's perfectly fair, reasonable and proportionate to place considerable weight on what this information says as an indication of what Mr B's financial circumstances were more likely than not to have been at the time.

It's also important to note that L2G was required to establish whether Mr B could sustainably make his loan repayments – not just whether the loan payments were technically affordable on a strict pounds and pence calculation. The loan payments being affordable on a strict pounds and pence basis might be an indication that a consumer could sustainably make the repayments.

But it doesn't automatically follow that this is the case. And as a borrower shouldn't have to borrow further in order to make their payments, it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to sustainably make their repayments if it is on notice that they are unlikely to be able to make their repayments without borrowing further.

I've carefully considered the information available in light of all of this.

The information provided shows that Mr B was already in a cycle of taking out further borrowing in order to repay existing creditors. And, in my view, he is unlikely to have been

able to repay loans 3 and 4 without borrowing further or experiencing financial difficulty. As this is the case, I do think that Mr B's existing financial position meant that he was unlikely to be able to afford the repayments to these loans, without undue difficulty or borrowing further.

I'm therefore satisfied that reasonable and proportionate checks would more like than not have shown L2G that it shouldn't have provided loans 3 and 4 (as well as loans 1 and 2 as L2G has already agreed is the case) to Mr B. As L2G provided Mr B with these loans, notwithstanding this, I'm satisfied that it failed to act fairly and reasonably towards him.

Mr B ended up paying interest, fees and charges on loans he shouldn't have been provided with. So I find that Mr B lost out because of what L2G did wrong and L2G needs to put things right for Mr B.

Fair compensation – what L2G to do to put things right for Mr B

Having thought about everything, I'm satisfied that it would be fair and reasonable in all the circumstances for L2G to put things right for Mr B by:

- refunding all interest, fees and charges Mr B paid on loans 3 and 4 (as well as loans 1 and 2 as it has already agreed to do);
- adding interest at 8% per year simple on any refunded payments from the date they were made by Mr B to the date of settlement†
- removing any and all adverse information it recorded about loans 3 and 4 (as well as loans 1 and 2 as it has already agreed to do) from Mr B's credit file.

† HM Revenue & Customs requires L2G to take off tax from this interest. L2G must give Mr B a certificate showing how much tax it has taken off if he asks for one.

My final decision

For the reasons I've explained, I'm upholding Mr B'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 B to accept or reject my decision before 2 October 2023.

Jeshen Narayanan
Ombudsman