

Complaint

Mr T has complained about a loan Loans 2 Go Limited ("L2G") provided to him. He says the loan was unaffordable.

Background

L2G provided Mr T with a loan for £750 in December 2018. The loan had an APR of 990.1% and an 18-month term. This meant that the total amount to be repaid of £3,058.56, which included interest, fees and charges of £2,308.56, was due to be repaid in 18 monthly instalments of just under £170.

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

My provisional decision of 3 July 2023

I issued a provisional decision – on 3 July 2023 - setting out why I intended to uphold Mr T's complaint. I won't copy that decision in full, but I will instead provide a summary of my findings.

I started by explaining that we've explained how we handle complaints about unaffordable and irresponsible lending on our website. And that I had used this approach to help me provisionally decide Mr T's complaint.

Having carefully considered everything I've decided to uphold Mr T'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 T 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 T prior to providing him his loan. It said that it also carried out credit checks. L2G's said its checks suggested Mr T had more than enough to cover the payments to this loan and so it was reasonably entitled to lend.

I carefully considered what L2G had said. But it was clear that Mr T had had significant difficulties repaying credit in the past. In particular, I was mindful that Mr T had missed payments to his utilities. So I thought that L2G ought to have obtained further information on Mr T's expenditure to check that this wasn't an indication of him being in a difficult financial position.

And I thought that if L2G had carried out further checks before providing this loan, it would have seen that Mr T was struggling to manage his finances. Indeed, most of his income was being taken up by his existing living costs and repayments to his existing commitments. Mr T's bank statements also showed that he was stuck in his overdraft too.

Bearing all of this in mind, I was satisfied that reasonable and proportionate checks would more likely than not have demonstrated that Mr T would not have been able to make the repayments to this loan without borrowing further and/or suffering undue difficulty. And as a result I found that reasonable and proportionate checks would more likely than not have alerted L2G to the fact that Mr T was in no sort of position to make the payments to this loan without suffering significant adverse consequences.

As L2G provided Mr T with this loan, notwithstanding this, I was minded to conclude that it failed to act fairly and reasonably towards him. Mr T ended up paying interest, fees and charges on a loan he shouldn't have been provided with. So I explained that it was my intention to issue a final decision finding that Mr T lost out because of what L2G did wrong and that it needed put things right.

Responses to my provisional decision

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

L2G disagreed with my provisional decision. It said it understood from Mr T's credit report that he was up to date with payments on all credit commitments. The credit report evidenced that Mr T was able to manage his finances and make his repayments as it was on the whole positive with no payments in arrears, no County Court Judgments, no defaults and no payday loans within 2 years of taking out this loan.

My findings

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

I set out in some detail why I intended to uphold Mr T's complaint in my provisional decision of 3 July 2023. L2G has disputed my findings saying that it didn't need to carry out any further checks as the credit search it carried out on Mr T was on the whole positive.

I've considered what L2G has said. I accept that Mr T did not have had any County Court Judgments against him or defaults. And to be clear I did not make the finding that he had any of these against him in my provisional decision. Nonetheless, the copy of the credit search provided does nonetheless indicate that he'd previously fallen behind on his utility payments. So I don't think that Mr T's financial position was as positive as L2G is making out.

I'm not suggesting that Mr T's previous difficulty with his utility payments in itself meant that L2G shouldn't have lent to him. But I do think that Mr T previous difficulties making his payments to his utility bills is a reason why further checks were necessary in this instance. And if these further checks had been carried out L2G would have seen that Mr T was unlikely to make the payments to this loan without undue difficulty or borrowing further.

So while I've considered the further comments that L2G has made in response to my provisional decision of 3 July 2023, I've not been persuaded to alter my conclusions. I'm therefore still upholding Mr T's complaint. And I remain satisfied that L2G needs to put things right.

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

Having thought about everything, I think that it would be fair and reasonable for L2G to put things right for Mr T by:

- refunding all interest, fees and charges Mr T paid on his loan;
- adding interest at 8% per year simple on any refunded payments from the date they were made by Mr T to the date of settlement†
- removing any adverse information recorded about this loan from Mr T's credit file.

† HM Revenue & Customs requires L2G to take off tax from this interest. L2G must give Mr T 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 3 July 2023, I'm upholding Mr T'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 T to accept or reject my decision before 14 August 2023.

Jeshen Narayanan
Ombudsman