DRN-4629690

The complaint

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

What happened

Mr B took out an 18-month instalment loan for £400 from Loans 2 Go on 23 February 2021. The monthly repayments were £91.42 and the total repayable was £1,645.56.

Mr B says if Loans 2 Go had looked properly at his situation his poor credit record should have alerted them to the fact he had struggled financially before. He also says the interest rate was excessive and the cost was not made clear before he was given the money.

Our investigator did not recommend the complaint should be upheld. He said Loans 2 Go carried out appropriate checks and based on the results, it was not wrong to lend to Mr B.

Mr B disagreed with this assessment and asked for an ombudsman's review. He sent in his full credit file and pointed out he had far more credit than Loans 2 Go's checks showed and his outgoings were also much higher with his existing credit commitments alone exceeding £3,000 a month.

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 Mr B required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he 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 Mr B. 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 Mr B.

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 Mr B. So to reach my conclusion I have considered the following questions:

- did Loans 2 Go complete reasonable and proportionate checks when assessing Mr B's loan application to satisfy itself that he 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 Mr B before it approved the loan. It asked for his monthly income and expenditure. It verified his declared income looking at his current account turnover for the prior six months through one of the credit reference agencies. It reviewed his declared expenditure to ensure it was reasonable based on national statistics. It checked Mr B's credit file to understand his existing monthly credit commitments and credit history. From these checks combined Loans 2 Go concluded Mr B had enough disposable income for the loan to be affordable.

I think these checks were proportionate given the value and term of the loan, and the size of the monthly repayment relative to Mr B's income. And based on the results of the checks I find Loans 2 Go made a fair lending decision. I'll explain why.

Mr B declared a net monthly income of £2,850 and the lender verified this to be £2,644.48. Mr B declared his expenses, including his credit commitments, to be £1,043. Loans 2 Go checked this against national statistics and completed a credit check. Using this information it increased Mr B's outgoings to £2,268. And so found he would have sufficient disposable income for the loan to be affordable.

It also carried out a credit check and has shared the results with this service. This showed Mr B had £16,128 of debt – 84% of which was on one hire purchase agreement. He had one payday loan for £428. And a credit card with a utilisation of 33%. Mr B was up-to-date on all his active accounts and needed to spend around £529 a month to meet his existing commitments. This was not such a high percentage of Mr B's income that I think Loans 2 Go ought to have been concerned. I can see there was some adverse historic data – two CCJs from 2016 and 2017 but these were settled. Overall, I don't think there was anything in the credit check that ought to have led Loans 2 Go to have either declined this application, or carried out further checks.

So in the round I think it was reasonable for Loans 2 Go to give this £400 loan to Mr B.

Mr B has sent in information showing he was more indebted at the time (£26,000) and that this cost him £3,000 each month. It can be that a lender will not see the same data that a consumer can on their full credit file. This can be for different reasons, such as timing lags and not all lenders report to all the agencies. But I can only fairly expect Loans 2 Go to respond to the result of its credit check so this does not change my conclusion.

To be clear, I am not saying Mr B's financial position may not have been exactly as Loans 2 Go understood, but in the circumstances of this loan I do not find it would have been proportionate for it complete a fuller financial review to possibly discover this.

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

I don't think that it did. Mr B says the interest was excessive and not made clear before he took out the loan. But Loans 2 Go has shown that the cost of credit would have been set out clearly when Mr B applied. And he had to actively engage in the application process for his loan, so I think it's likely that he was aware of what he was agreeing to pay. I haven't seen anything which makes me think that Loans 2 Go treated Mr B unfairly or breached industry practice regarding interest charges

My final decision

I am not upholding Mr B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 16 April 2024.

Rebecca Connelley
Ombudsman