

The complaint

Miss H complains that the loan she received from Loans 2 Go Limited was unaffordable to her.

What happened

Miss H was approved for a £360 loan from Loans 2 Go on 5 September 2023 as shown below:

<u>Loan</u>	<u>Date</u>	<u>Amount</u>	<u>Term</u>	<u>Repayment</u>
1	5 Sep 2023	£360	18m	£74

Miss H says she was in a never-ending cycle of debt when she applied for the loan and that, if Loans 2 Go had carried out the correct checks, it would have seen she was already in financial difficulty. She says she has missed priority bills to make the repayments and her mental health is suffering as a result.

Loans 2 Go says it verified Miss H's income and checked her credit file. It says it found she had sufficient disposable income to afford the repayments and that interest had been charged in line with the terms and conditions. However, it offered to reduce the interest charged by 25% as a gesture of goodwill considering what Miss H has now said about her financial circumstances. Miss H did not accept this offer.

Our investigator recommended the complaint should be upheld. She wasn't satisfied that Loans 2 Go had carried out proportionate checks and considered that, had it done so, it would have found the loan was unaffordable to Miss H. She recommended that Miss H should only have to repay the money she borrowed, and that any adverse information should be removed from her credit file once the loan is repaid.

Loans 2 Go responded to say, in summary, that some negative information on Miss H's credit file would not preclude her from the type of loans it provides. It added that the presence of Buy Now Pay Later expenditure should not be a negative factor as it offers interest-free repayments that can be advantageous.

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.

I need to take into account the relevant rules, guidance and good industry practice.

Bearing this in mind, in coming to a decision on Miss H's case, I've considered the following:

- Did Loans 2 Go complete reasonable and proportionate checks when assessing Miss H's loan application to satisfy itself she'd be able to sustainably repay the loan?
 - 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 have considered the information from the checks carried out by Loans 2 Go and it shows:

- Miss H was employed full time with a monthly income of £2,037;
- Rent was £725 per month and £150 was recorded for utilities and transport;
- 14 active credit accounts, of which six had a zero balance:
 - One hire purchase account with repayments of £194 per month;
 - Two further loans, both taken out in 2023, with total repayments of £282;
 - Four credit cards for which the total balance was £1,984 with limits of £3,150;
 - One credit card account was slightly over its limit;
 - A utilities account with monthly repayments of £52;
- There were four defaulted accounts, the latest in 2019 - two had been satisfied;
- There were arrears on an account from 5 months earlier, but no bankruptcy or CCJs.

I'm not satisfied these checks were reasonable and proportionate for the loan because:

- It was for 18 months, and Loans 2 Go needed to be sure payments were sustainable;
- Miss H's borrowing had escalated quite significantly in 2023;
- She was already committed to paying over 30% of her income to credit repayments and the new loan increased this to almost 35%;
- Loans 2 Go had used an estimate for Miss H's other expenditure.

So, I've had a look at Miss H's bank statements from the time as a reasonable proxy for what proportionate checks may have shown and found:

- Miss H was earning a regular income of £2,037 per month, but also averaged an additional £700 monthly from another source;
 - She explained this was from a zero-hours contract and was not guaranteed;
- As well as £725 on rent, Miss H was paying over £200 on council tax and utilities;
- The three loans and four credit cards gave existing credit commitments of £570;
- Over £200 was spent on phone, TV, pet insurance and travel insurance costs;
- Prescription costs were £11 monthly;
- Miss H was repaying a further loan that wasn't on her credit file at £60 per month;
- Two short-term loans were taken out in July 2023 - repayments were £256 monthly;

Based on the above, and excluding the income from the zero-hours contract, Miss H had no disposable income, even before spend on food and travel was taken into account. It is clear that she was relying on the income from her additional job, even though it wasn't guaranteed. Her statements also showed that she was borrowing money from a friend, had had direct debits returned and had upwards of 40 "Buy Now Pay Later" transactions each month in the lead up to the loan. That, combined with the recent short-term lending,

indicated Miss H was already in financial difficulties and that it was irresponsible to lend her further money.

So, I am satisfied that, if Loans 2 Go had carried out proportionate checks, it would have found that Miss H could not afford to repay additional lending.

In summary therefore, I don't find Loans 2 Go made a fair lending decision, although I don't consider it acted unfairly or unreasonably in any other way.

My final decision

My decision is that I uphold this complaint. Loans 2 Go Limited should:

- Add up the total amount of money Miss H received as a result of having been given the loan. The repayments Miss H made should be deducted from this amount:
 - If this results in Miss H having paid more than she 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)*. Loans 2 Go should also remove all adverse information regarding this loan from Miss H's credit file;
 - If any capital balance remains outstanding, then Loans 2 Go should arrange an affordable and suitable payment plan with Miss H. Once Miss H has cleared the balance, any adverse information in relation to the loan should be removed from her credit file.

*HM Revenue & Customs requires Loans 2 Go to deduct tax from this interest. Loans 2 Go should give Miss H a certificate showing how much tax it's deducted if she asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 11 June 2024.

Amanda Williams
Ombudsman