

The complaint

Miss L has complained through a representative that Loans 2 Go Limited ("L2G") didn't conduct sufficient affordability checks before it lent to her.

What happened

A summary of Miss L borrowing can be found in the table below.

loan number	loan amount	agreement date	repayment date	number of monthly instalments	repayment per loan
1	£860.00	21/11/2019	23/12/2019	18	£196.56
2	£400.00	17/05/2021	22/10/2023	18	£91.42

Following Miss L's complaint L2G wrote to her representative and explained it wasn't going to be upholding it. However, as a gesture of goodwill it agreed to write off the outstanding balance which was due at the time (October 2023) of loan 2 – £244.26. Unhappy with this response, Miss L's representative referred the complaint to the Financial Ombudsman.

An investigator upheld Miss L's complaint about the loans saying the credit check results given to L2G suggested that Miss L was already struggling to pay her existing credit commitments and so she couldn't take on any further borrowing.

L2G responded, saying it agreed with the investigator's findings about loan 2 – that the loan ought to not have been advanced. However, it disagreed with the findings for loan 1.

The offer to uphold loan 2 only was put to Miss L's representative and it wasn't accepted. As no agreement could be reached the complaint was passed to me and I issued a provisional decision explaining why L2G hadn't made an error when it advanced loan 1, but it should pay the compensation it has agreed for loan 2.

Both parties were asked for any further submissions, but these needed to have been received as soon as possible, but in any event, no later than 30 May 2024.

L2G hasn't responded to the provisional decision but Miss L's representative accepted the findings.

A copy of the provisional findings follows this and forms part of this final decision.

What I said in my provisional decision:

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

We've set out our general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website. And I've used this approach to help me decide Miss L's complaint. Having carefully considered

everything I've decided to uphold Miss L'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 it needed to carry out proportionate checks to be able to understand whether Miss L could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender's (or operator of electronic system in relation to lending such as here) checks were proportionate. Generally, we think it's reasonable for checks to be less thorough – in terms of how much information is gathered and what is done to verify it – in the early stages of a lending relationship.

But we might think more needed to be done 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 firm to be able to show that it didn't continue to facilitate a customer's loans irresponsibly.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss L's complaint. Having looked at everything I have decided to not uphold Miss L's complaint about loan 1 and I've explained why below.

Loan 1

Miss L declared she received an income of £1,475 per month from full time employment. L2G says Miss L's income figure was verified through a credit reference agency and it was told that she usually received around £1,462 per month – so around the figure Miss L declared to L2G.

As part of the application data provided by L2G, Miss L told it that she had outgoings totalling £475 per month. These were broken down as £100 for food, £90 on utilities, £60 transport and £175 on credit commitments. However, this is contradicted by the information that was provided in the final response letter, where L2G said Miss L's outgoings were likely to be around £1,118.68.

L2G appears to have used the larger monthly outgoing figure and so it believed Miss L had around £343 per month in which to afford her repayment of £197 (rounded). The loan looked affordable.

L2G, as part of its affordability assessment carried out a credit search and it has provided the results it received from the credit reference agency. I want to add that although L2G carried out a credit search there isn't a regulatory requirement to do one, let alone one to a specific standard. This can and does mean information which is given to a lender may be different to what a consumer can see by reviewing their own report. But what L2G needed to do was consider the results it received.

L2G's checks showed that Miss L had default on a mail order account in April 2018. She had also had repayment problems on two closed accounts (both mail order) between 12 and 18 months before the loan was approved because the credit file notes she was on a repayment plan at the time.

L2G also was told that a number of accounts were being managed by debt collectors with payments ranging between £3 and £10 per month per account – but these appear to have been historic repayment issues with these accounts that had then been passed to a debt collector.

At the time Miss L had three active loan accounts, including one payday loan costing her £294 per month and on top of that she had a number of store or credit cards with balances totalling £2,690. On one of these cards, Miss L had repayment problems on between 7 and 12 months before the loan was advanced. It is clear from the credit check results that Miss L's credit commitments were more than the £175 she had declared to L2G as part of her application.

Overall, given what L2G could see in the credit report about the debt collection, the missed payments, the adjustments L2G made to Miss L's outgoings – without any further clarification - (thinking about that she had a dependent and hadn't declared any housing costs) I do think L2G couldn't just approve this loan without any further checks.

But I also think, the credit search results, on their own aren't sufficient to uphold the complaint. So, I do think L2G needed to have verified Miss L financial position including checking her living costs. L2G could've gone about doing this a number of ways, it could've asked to see copy bills, bank statements or any other documentation it felt may have been necessary to review.

In the circumstances of this complaint, Miss L's representative has confirmed that bank statements from the time of loan 1 can't be provided, so I can't be sure what L2G would've discovered had it made better checks. So, I don't have enough to say that it shouldn't have approved loan 1. As it stands, I am intending to not uphold her complaint about this loan.

Loan 2

L2G in response to the investigator's assessment upheld the final loan – so there is no need for me to consider this loan any further because its accepted it shouldn't have been advanced. But for completeness I've set out at the end of the decision what L2G needs to do in order to put things right for Miss L.

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.

No new submissions have been made, so I see no reason to depart from the findings I made in the provisional decision. I still think L2G needed to make better checks before issuing loan 1 but I can't say what it may have discovered by conducting those further checks. I do not uphold Miss L's complaint about her first loan.

L2G has already accepted the second loan ought to not have been granted, so I've set out below what it needs to do, and what it has already agreed to do in order to put things right for her.

Putting things right

As L2G has accepted loan 2 shouldn't have been provided, it therefore follows that Miss L shouldn't have had to pay any interest or charges on the capital that she borrowed.

- Remove all interest fees and charges from loan 2 and treat all payments made by Miss L as if they went towards the capital of the loan.
- If after this re-work Miss L has paid enough to repay the capital, she borrowed than the overpayments should be refunded to her along with 8% simple interest* from the date the overpayment arose to the date of settlement.
- Remove any adverse payment information recorded on Miss L's credit file about loan 2.

*HM Revenue & Customs requires L2G to deduct tax from this interest. L2G should give Miss L a certificate showing how much tax it has deducted, if she asks for one.

My final decision

For the reasons I've explained above and in the provisional decision, I'm upholding Miss L's complaint in part.

Loans 2 Go Limited should put things right for Miss L as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 28 June 2024.

Robert Walker
Ombudsman