DRN-4845641

The complaint

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

What happened

On 22 February 2019 Mr L took out an 18-month loan for £250 (loan 1) from Loans 2 Go. The monthly repayments were £57.14 and the total repayable was £1,028.52. He settled this loan with loan 2. This was taken out on 6 September 2019. The monthly repayments were £111.11 and the total repayable was £1,999.98.

Mr L says he can't understand why he was accepted for these loans. His credit rating was the worst it's ever been and he had numerous defaults. He cannot afford to repay loan 2 and it is causing him a lot of stress. At the time he was behind on his rent and had no choice but to apply. Also, it wasn't made clear to Mr L how the loans worked, and when he tried to pay loan 2 off early Loans 2 Go refused and said this is how it works.

Loans 2 Go says it completed the right level of checks before lending and they showed the loans would be affordable.

Our investigator did not uphold Mr L's complaint. She said whilst the lender's checks were not proportionate, from the available evidence she could not conclude better checks would have shown the loans to be unaffordable.

Mr L disagreed with this assessment and asked for an ombudsman's review. In summary, he said his credit reports at the time would have shown he was in arrears with multiple loan providers. It's impossible for him to get bank statements but he feels the information he has provided should be enough to show the loans were unaffordable.

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 L 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 L. 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 L.

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

- did Loans 2 Go complete reasonable and proportionate checks when assessing Mr L's loan applications to satisfy itself that he would be able to repay the loans in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did Loans 2 Go make fair lending decisions?
- did Loans 2 Go act unfairly or unreasonably in some other way?

I can see Loans 2 Go asked for some information from Mr L before it approved both loans. It asked for his monthly income and expenditure. It verified his declared income using a third-party tool. It reviewed his declared expenditure to ensure it was reasonable based on national statistics. It checked Mr L's credit file to understand his existing monthly credit commitments and credit history. I can't see it asked about the purpose of the loans. From these checks combined Loans 2 Go concluded Mr L had enough disposable income for the loans to be affordable.

I think these checks were a reasonable starting point based on the size and term of the loans and the cost of the monthly repayments relative to Mr L's declared income. But I don't think they went far enough given the initial results. I'll explain why.

At the time of loan 1, Loans 2 Go learnt Mr L had no active debt, but two accounts that had defaulted - one in August 2018 and one in April 2017. He had also used pay day loans in October 2018 and whilst these were now settled he had missed a payment on both accounts. So I think Loans 2 Go ought to have reviewed Mr L's actual financial position before lending and not relied on averages or third-party verification.

In cases like this we look at bank statements for the three months prior to application. I am not saying Loans 2 Go had to do this but it is a reliable way for me to understand what better checks would most likely have shown the lender. However Mr L is unable to provide his statements. So I cannot know what Loans 2 Go would have learnt from proportionate checks. And I do not agree with Mr L that there is adequate data from the checks the lender completed to conclude it was wrong to lend.

I say this because at the time of loan 1 Loans 2 Go calculated Mr L had £227.23 of disposable income and so the loan seemed affordable. Whilst the credit check showed some adverse data, the defaults were not recent and Mr L had used only two payday loans, with one late payment each, that were settled four months before. He had no active credit. His active accounts were both current accounts and he was not using an overdraft facility on either. So whilst I don't dispute that there were signs of some relatively minor financial instability, I think based on the available evidence it was reasonable for Loans 2 Go to conclude this was now resolved.

It follows I cannot find Loans 2 Go was wrong to give loan 1.

Turning now to loan 2, Loans 2 Go calculated this time that Mr L had £261.20 of disposable income and so the loan seemed affordable. Given this was repeat borrowing and left Mr L with less disposable income than at the time of loan 1, better checks would have been needed here too.

I am however in the same position as for loan 2 as Mr L cannot provide bank statements. And again based on the available evidence I cannot fairly conclude Loans 2 Go was wrong to lend to Mr L. The credit check showed Mr L now had £686 of active debt - but this was the balance of loan 1 which loan 2 would settle. He had made all payments to loan 1 on time. He still had two active current accounts with no overdraft. He had opened three new accounts in the last 12 months – one being loan 1 and the two other were telecoms accounts that were well managed. There was no new adverse data.

So logically, based on the available evidence I cannot conclude Loans 2 Go was wrong to approve loan 2 either.

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

I don't think it did. Mr L says it wasn't made clear to him how the loans worked, and when he tried to pay loan 2 off in advance Loans 2 Go refused and said this is how it works.

I have reviewed the pre-contract information he saw, and the loan agreements. I think they clearly set out all the key features of the loans.

We asked Loans 2 Go about Mr L's recollection of the discussion when he tried to pay his second loan off early. It sent in the contact notes that show the relevant emails between the parties. I can see it answered his queries clearly, giving the figures he asked for and explaining when repaying the loan would change from withdrawal to early settlement. I have seen no evidence it told Mr L he could not repay his loan early as he recalls.

I've also considered whether the relationship might have been unfair under Section140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Loans 2 Go lent irresponsibly to Mr L or otherwise treated him unfairly. I haven't seen anything to suggest that Section 140A or anything else would, given the facts of this complaint, lead to a different outcome here.

My final decision

I am not upholding Mr L's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 25 July 2024.

Rebecca Connelley

Ombudsman