DRN-4947590

Financial Ombudsman Service

The complaint

Ms M, through her representative, complains that Loans 2 Go Limited lent to her irresponsibly.

What happened

Ms M took one loan from Loans 2 Go on 10 November 2021. It was for £450 over 18 months at a repayment each month of £92.50. The total to repay was £1,665 and Ms M repaid it early in August 2022.

After Ms M's representative had complained to Loans 2 Go in November 2023, it responded with its final response letter (FRL). It explained the checks it had carried out before approving the loan and it declined her complaint but made a 'goodwill offer' to refund Ms M £150.

Ms M's representative referred it to the Financial Ombudsman Service where one of our investigators looked at the complaint and did not think that Loans 2 Go's decision was irresponsible. She recognised the poor credit history but having analysed Ms M's bank account transactions leading up to November 2021 she considered that still Ms M could afford the £92.50 each month.

Ms M's representative requested that it be reviewed by an ombudsman and so it was passed to me to decide.

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.

We've set out our general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - on our website.

Taking into account the relevant rules, guidance, and good industry practice, what I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are whether Loans 2 Go completed reasonable and proportionate checks to satisfy itself that Ms M would be able to repay the loan in a sustainable way? And, if not, would those checks have shown that Ms M would've been able to do so?

If I determine that Loans 2 Go did not act fairly and reasonably in its dealings with Ms M and that she has lost out as a result, I will go on to consider what is fair compensation.

The rules and regulations in place required Loans 2 Go to carry out a reasonable and proportionate assessment of Ms M's ability to make the repayments under this agreement. This assessment is sometimes referred to as an "affordability assessment" or "affordability check."

The checks had to be "borrower" focused – so Loans 2 Go had to think about whether repaying the loan would be sustainable and/or cause significant adverse consequences for Ms M. In practice this meant that Loans 2 Go had to ensure that making the payments to the loan wouldn't cause Ms M undue difficulty or significant adverse consequences.

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 Ms M. Checks also had to be "proportionate" to the specific circumstances of the loan application.

In general, what constitutes a proportionate affordability check will be dependent upon several factors including – but not limited to – the 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/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *greater* the number and frequency of loans, and the longer the period during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

I've carefully considered all the arguments, evidence and information provided in this context and what this all means for Ms M's complaint.

Ms M applied for a loan of £600 but Loans 2 Go approved her for one of £450. Ms M informed Loans 2 Go about her income - £2,400 a month after tax. Ms M told Loans 2 Go her expenditure including £141 a month on credit commitments came to a total of £981.

Loans 2 Go has told us, and demonstrated to us, that it verified her income as being around £2,394 each month which is almost the same as Ms M's declared income figure. So, it seems that the income figure used is not in dispute.

Loans 2 Go did carry out a credit search and from that it increased Ms M's total expenditure figure to just short of £2,062. The income and expenditure assessment indicated that Ms M could afford the £92.50 each month.

Loans 2 Go has explained that it's the type of lender where its customers often have adverse entries on their credit files. I have reviewed the copy credit report it has sent to us and I note that Ms M had some defaults in the past which she was paying off and had a default relatively recently before applying for this loan. So, I agree with our investigator that Loans 2 Go ought to have done additional checks.

Having reviewed the details our investigator obtained from looking at the bank account statements we have for Ms M and having checked the bank transactions myself; it does seem that she was paying off debt collectors and had other loans.

Ms M also had a mobile phone contract, TV and internet connection costs including a TV licence, the usual utilities, rent, council tax, some insurances for a car and house, petrol, pet insurance, childcare costs, and costs surrounding food. The average figure using three months of statements our investigator came to was £2,008.

This appears to be broadly correct. And it's a similar figure to the one Loans 2 Go had used having carried out the checks it did before lending.

Using the average income figure over three months which would have been £2,659 or the verified figure Loans 2 Go used of £2,394, I can see that Ms M was able to afford this loan.

I consider that Loans 2 Go probably ought to have made more detailed enquiries considering the information the credit report revealed. And having done that, if it had carried out further checks, I still think Loans 2 Go would have lent to her. The reduced figure for the loan of £450 over the £600 Ms M applied for may be explained because of the information Loans 2 Go discovered. But it does not lead me to think that Loans 2 Go ought to have refused the loan or were wrong to have approved it.

I've also considered whether Loans 2 Go acted unfairly or unreasonably in any other way and I have considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974.

However, for the reasons I've already given, I don't think it lent irresponsibly to Ms M or otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

I do not uphold the complaint.

My final decision

My final decision is that I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 18 September 2024.

Rachael Williams
Ombudsman