

Complaint

Mr P has complained about loans Loans 2 Go Limited ("L2G") provided to him. He says the loans were unaffordable and so shouldn't have been provided to him.

Background

L2G initially provided Mr P with a loan for £300 in May 2020. However, Mr M repaid this loan in full within the withdrawal period and as a result paid no interest. So he didn't suffer any loss as a result of being provided with this loan and we've not looked into any complaint about it. And this decision is solely focused on the loan which L2G provided to Mr P in August 2020. Therefore, all reference to loan from this point onwards is in relation to this loan.

Mr P was provided with a loan for £250 in August 2020. This loan had an APR of 1,013.2% and a term of 18 months. This meant that the total amount to be repaid of £1,028.52, including interest, fees and charges of £778.52, was due to be repaid in 18 monthly instalments of £57.14.

One of our investigators reviewed Mr P's complaint and she concluded that L2G didn't do anything wrong when providing Mr P with his loan and so didn't recommend that the complaint be upheld.

Mr P disagreed with the investigator's assessment and asked for an ombudsman's decision.

My provisional decision of 24 July 2024

I issued a provisional decision – on 24 July 2024 - setting out why I was intending to uphold Mr P's complaint.

In summary, I was intending to uphold Mr P's complaint because I was satisfied that proportionate checks would more likely than not have shown L2G that it shouldn't have provided Mr P with his loan.

Responses to my provisional decision

L2G didn't respond to my provisional decision or provide anything further for me to consider.

Mr P didn't respond to my provisional decision or provide anything further for me to consider either.

My findings

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

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr P's complaint.

Having carefully considered everything, including what has happened since my provisional decision, I'm still upholding Mr P'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 is L2G needed to carry out proportionate checks to be able to understand whether Mr P could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more 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 lender to be able to show that it didn't continue to lend to a customer irresponsibly.

L2G says it agreed to Mr P's application after he provided details of his monthly income and some information on his expenditure. It says it cross-checked this against information on a credit search it carried out and all of this information showed Mr P could afford to make the repayments he was committing to. On the other hand, Mr P has said he couldn't afford this loan and so shouldn't have been lent to.

I've carefully considered what L2G has said. But the credit check it carried out showed Mr P had a number of defaults recorded against him. The credit checks also showed relatively recent arrears and L2G's checks also at the very least suggested that Mr P may have been earning substantially less than what he'd declared. This leads me to think that L2G needed to take steps to verify Mr P's actual monthly expenditure.

Bearing in mind all of this, I'm satisfied that L2G ought reasonably to have carried out further checks before providing either of these loans to Mr P.

I think further checks would have extended into finding out more about Mr P's expenditure. And if L2G had done this here, I'm persuaded that it would have seen that Mr P was already in a difficult financial position at the respective time. He was borrowing from a number of payday type lenders and a number of his payments were being returned.

I'm also satisfied that reasonable and proportionate checks would more likely than not have shown L2G that Mr P's existing precarious financial position was because he was struggling financially.

So as reasonable and proportionate checks should have extended into finding out more about Mr P's income and expenditure, I'm satisfied that they would more like than not have shown L2G that it shouldn't have provided this loan to Mr P.

As L2G provided Mr P with this loan notwithstanding this, I don't think that it acted fairly and reasonably towards him.

Mr P ended up paying interest, fees and charges on a loan he shouldn't have been provided with in the first place. So I find that Mr P lost out because of what L2G did wrong when providing this loan and that it should put things right.

In reaching my conclusions I've also considered whether the lending relationship between L2G and Mr P might have been unfair to Mr P under section 140A of the Consumer Credit Act 1974.

However, I'm satisfied that the direction I set out in the section below will result in fair compensation for Mr P given the overall circumstances of his complaint. I'm also satisfied that, based on what I've seen, no additional award is appropriate in this case.

Fair compensation – what L2G needs to do to put things right for Mr P

Having thought about everything, I think that it would be fair and reasonable in all the circumstances of Mr P's complaint for L2G to put things right by:

- refunding all interest, fees and charges Mr P paid on his loan;
- adding interest at 8% per year simple on any refunded payments from the date they were made by Mr P to the date of settlement†
- removing any and all adverse information it recorded about this loan from Mr P's credit file.

† HM Revenue & Customs requires L2G to take off tax from this interest. L2G must give Mr P a certificate showing how much tax it has taken off if he asks for one.

My final decision

For the reasons I've explained above and in my provisional decision of 24 July 2024, I'm upholding Mr P's complaint. Loans 2 Go Limited should put things right in the way I've directed it to do so above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 9 September 2024.

Jeshen Narayanan
Ombudsman