

The complaint

Ms M has complained through a representative that Loans 2 Go Limited (“L2G”) didn’t conduct sufficient affordability checks before it lent to her.

What happened

Ms M was advanced one loan of £1,850 on 20 May 2020 and she was contracted to make 24 monthly payments of £304.63. Had Ms M repaid the loan in line with the credit agreement she would’ve repaid a total of £7,311.12. The loan had an APR of 147.6% and it was repaid on 23 May 2023.

Following Ms M’s complaint L2G wrote to her representative and explained it wasn’t going to be upholding the complaint. Unhappy with this response, Ms M’s representative referred it to the Financial Ombudsman.

The complaint was reviewed by an investigator who didn’t uphold the complaint because they were satisfied L2G carried out proportionate checks that showed it the loan was likely to be affordable.

Ms M didn’t agree saying the loan had a high interest rate which she couldn’t afford. Ms M says loan caused her both financial and mental health difficulties. As no agreement could be reached the complaint has been 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 of the relevant rules, guidance and good industry practice - on our website. And I’ve used this approach to help me decide Ms M’s complaint. Having carefully considered everything I’ve decided to not uphold Ms M’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 Ms M 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 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 do 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 Ms M's complaint.

Before I provide my reasons for the decision I've reached, I just want to say that I'm sorry to hear about the impact this loan had on Ms M's finances as well as her mental health – I do hope things have improved for her.

Ms M declared she received an income of £1,600 per month from full time employment. L2G says Ms M's income figure was verified through a credit reference agency and it was told that Ms R usually received around £1,586 per month – so around the figure Ms M declared to L2G. It was reasonable, for L2G to rely on this information without the need to check this any further.

As part of the application data provided by L2G, Ms M told it that she had outgoings totalling £91 per month. These were broken down as £20 for food, £30 on utilities, £15 transport and £26 on credit commitments. While this may have been the first loan, these monthly living costs just do not seem realistic, there are no housing costs at all and it's unlikely a consumer would be spending as little as £20 per month on food.

However, L2G actually says it conducted a review of the application including the information Ms M had given about her expenditure as well as taking information from her credit file. Having carried out this check, it thought Ms M's monthly outgoings were more likely to be around £1,121.35.

L2G appears to have used the larger monthly outgoing figure and so it believed Ms M had around £479 per month in which to afford her repayment of £305 (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. L2G's checks showed that Ms M had defaulted on some accounts in 2017 but these appear to have been historic difficulties and since the defaults there wasn't any significant and obvious payment problems, so I don't think L2G would've been overly concerned. There were also no County Court Judgements or indications of any other type of insolvency.

L2G was told there were two active loan accounts costing Ms M £65 per month – and these had been repaid in line with the credit agreements with no missed payments being reported. In addition, Ms M owed just over £7,300 on 4 existing credit / store card accounts. But all these accounts were within their credit limits and had also been repaid as expected with no missed payments being reported.

There wasn't anything solely from the credit checks that would've led L2G to conclude that either Ms M couldn't afford her loans or anything else to indicate that she was already struggling to meet her existing repayments or was likely experiencing financial difficulties. There wasn't anything to suggest from proportionate checks that Ms M couldn't afford the loan, given this I think it was fair and reasonable for the loan to be granted and so I do not uphold Ms M's complaint about L2G's lending decision.

I accept that this loan had a significant interest rate which is greater than most mainstream credit providers will offer. However, while the industry regulator has implemented a cost cap for some types of loans, the cap didn't and doesn't apply to the loan that L2G advanced to Ms M.

It also, isn't part of my remit to regulate the interest rate that a lender may offer to a prospective customer, or at the time the loan was approved, to consider whether the interest rate was a fair assessment of the circumstances. All I can consider is whether L2G applied the interest rate that it said it would do, as outlined in the agreement. And as far as I can see it did this.

I've also 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 L2G 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.

My final decision

For the reasons I've outlined above, I am not upholding Ms M's.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms M to accept or reject my decision before 23 October 2024.

Robert Walker
Ombudsman