DRN-5002451

The complaint

Ms F says Loans 2 Go Limited irresponsibly lent to her.

What happened

Ms F took out a 24-month instalment loan for £1,500 from Loans 2 Go on 27 January 2023. The monthly repayments were £202 and the total repayable was £4,848.

Ms F says this loan with its high interest rate contributed to her cycle of debt and was irresponsible lending. She does not believe the necessary affordability checks were carried out. To repay the loan she had to borrow again which caused more financial strain and stress. She has ADHD, which she says makes her vulnerable in terms of financial judgement and stability - and this loan has made her situation worse, particularly given the excessive interest rate.

Loans 2 Go said it carried out proportionate checks that showed Ms F could afford the loan. However, it offered to reduce the interest on the loan by 20% as a gesture of goodwill and in full and final settlement of her complaint. Unhappy with this response Ms F brought her complaint to this service. She wants the lender to clear her outstanding balance, refund the interest and charges she has paid, plus statutory interest, and to delete any negative information from her credit record.

Our investigator did not recommend the complaint should be upheld. She said whilst Loans 2 Go's checks were not adequate, better checks would most likely have shown the loan to be affordable, so it was not wrong to lend to Ms F.

Ms F disagreed with this assessment and asked for an ombudsman's review.

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 Ms F required it to carry out a reasonable and proportionate assessment of whether she could afford to repay what she 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 Ms F. 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 F.

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

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

I can see Loans 2 Go asked for some information from Ms F before it approved the loan. It asked for her monthly income and expenditure. It verified her declared income of £4,000 using a third-party tool which showed it to be £2,851. It reviewed her declared expenditure to ensure it was reasonable based on national statistics and adjusted it accordingly. It checked Ms F's credit file to understand her existing monthly credit commitments and credit history. It then calculated her total non-discretionary outgoings to be £2,250. From these checks combined Loans 2 Go concluded Ms F had enough monthly disposable income (£601) for the loan to be affordable.

Whilst in principle I think these checks were reasonable given the term and value of the loan, I am not satisfied they ended up being proportionate based on the initial results they returned. I'll explain why.

The credit check showed Ms F had debt of £16,956 across 11 active accounts, seven of which had been opened in the last 12 months. There was no significant adverse data and her active accounts were up-to-date. However, her credit utilisation was high at 99% and she was over her limit on one credit card. She was also using an overdraft facility. So, in the round, I think Loans 2 Go ought to have checked Ms F's actual income and expenditure prior to lending.

In cases like this we rely on bank statements to understand what such proportionate checks would have most likely shown the lender. And in this case I think Loans 2 Go could fairly have made the same lending decision had it completed these checks. Ms F's average monthly income was almost £1,000 higher than the figure Loans 2 Go used and her essential outgoings were very marginally lower. So I think it would have been reasonable for it to conclude the loan would be affordable. I accept Ms F was using her available credit on her existing accounts but the credit check showed that at this stage she was meeting all her required contractual repayments each month.

It follows I don't think Loans 2 Go was wrong to lend to Ms F. To be clear, I am not challenging Ms F's testimony that she was already struggling financially. Rather my finding is that it would not have been proportionate for Loans 2 Go to carry out the depth of financial review needed to possibly discover this.

Did Loans 2 Go treat Ms F unfairly in some other way?

Ms F told us that her ADHD impacts her money management but I have not seen any evidence that Loans 2 Go was aware of her vulnerability at the time she applied – so I cannot fairly find it failed to respond and make any reasonable adjustments. Now that it is aware it must offer Ms F the appropriate support.

Ms F is also unhappy with the 'excessive interest' on the loan. I accept it is high, but the credit agreement clearly set out the cost of credit and the APR. And Ms F had to actively engage in the application process for her loan, so I think it's likely that she was aware of what she was agreeing to pay. I haven't seen anything which makes me think that Loans 2 Go treated Ms F unfairly or breached industry practice regarding interest charges.

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 Ms F 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

I am not upholding Ms F's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms F to accept or reject my decision before 9 October 2024.

Rebecca Connelley
Ombudsman