

The complaint

Miss B complained that Loans 2 Go Limited (“Loans 2 Go”) irresponsibly granted her a loan in October 2018 that she couldn’t afford to repay.

What happened

Miss B took out the loan in October 2018. The amount was £250, and the monthly repayment was £56.64 over an 18-month term. The purpose of the loan wasn’t stated, but I’ve no evidence to say that Miss B was intending to repay other borrowing.

Miss B said Loans 2 Go didn’t carry out reasonable and proportionate checks before granting the loan, and she was already in financial difficulties. She would like the loan interest and charges to be refunded, and her credit record amended accordingly.

Miss B complained to Loans 2 Go about all this. Loans 2 Go said it had carried out the appropriate checks before granting the loan, and it told Miss B that it did not uphold her complaint.

Miss B then brought her complaint to this service. Our investigator looked into it but didn’t think it should be upheld. Miss B didn’t agree, and asked for it to be reviewed by an ombudsman. I issued my provisional decision earlier in October, in which I explained that I proposed to uphold Miss B’s complaint. Both parties have now responded to say that they accept my conclusions.

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 considering complaints about unaffordable and irresponsible lending is set out on our website, and I’ve taken this into account here.

I’ve decided to uphold Miss B’s complaint. I’ll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn’t a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering matters such as the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer’s circumstances. So I’ve considered whether Loans 2 Go completed reasonable and proportionate checks to satisfy itself that Miss B would be able to make the repayments on the loan in a sustainable way.

Miss B sent in a copy of her credit history. We asked her for copies of her bank statements for the period leading up to the granting of the loan, but she didn’t send anything in. Loans 2 Go sent in copies of the loan agreement and details of the types of checks it carried out in relation to Miss B’s loan application, along with its notes of its contact with her. Loans 2 Go said that it would’ve verified Miss B’s income and credit commitments using credit reference

information, and essential living expenses would've been estimated based on Office for National Statistics data.

I set out my reasoning in my provisional decision as follows:

“Loans 2 Go said that Miss B had stated her monthly income to be £1,500. The application information also shows that Miss B said her monthly housing costs were £150, groceries were £50, utilities were £100, transport was £150, credit commitments were £200 and other expenses also £200. This came to £850 each month. Some of these figures seem very modest, especially as Miss B had also stated that she had a dependent relative. And the credit reference information provided by both parties suggests that Miss B's payments on other credit commitments were more than £200 each month.

Loans 2 Go said it verified Miss B's income via credit reference information as being a minimum of £1,457.61. It also said that it estimated Miss B's total monthly expenditure to be just over £1,250. This left a disposable income of just under £210, from which to make the loan payment of £56.64. But Loans 2 Go didn't provide a breakdown of this figure, so I can't see how much it took into account for each area of expenditure. And as I don't have any of Miss B's bank statements, I can't identify her actual outgoings.

However, Loans 2 Go did provide a copy of the credit reference information that it used at the time of the application. I accept that the loan was for a small amount - £250. But the interest rate was high, and Miss B was required to make 18 payments of £56.54. Based on what's on the credit reference information, I'm not satisfied that Loans 2 Go carried out reasonable and proportionate checks before granting the loan.

I say this because the information shows that Miss B had taken out a credit card in June 2018, and payday loans in July and October 2018 – the latter less than two weeks before the application for this loan. A loan that looks as though it was coming towards its end had been five months in arrears a few months earlier, and had been in arrears for several months before that. Another loan, with a monthly payment of only £6, was two months in arrears at the time of this application. Miss B had a history of taking payday loans – there are several listed on the credit reference information over the preceding two years – and one of these, which had been settled in July 2018, showed as being six or more payments in arrears for five months, and otherwise in arrears for ten months. Others showed that there had been arrears or an arrangement to pay. There was a default on a credit card, and another on a payday loan, in 2017.

The history of payday loans, taken with the incidence of arrears, suggests to me that Miss B was in financial difficulty, and was overly reliant on credit, especially short-term credit. So I think this should have prompted further enquiries about Miss B's circumstances. And whilst, in reaching my conclusions, I have only looked at what happened before the loan was granted, I can also see from Loan 2 Go's information that Miss B entered into a debt management plan very shortly after the loan was granted. This is consistent with my view that Miss B was in financial difficulties when the loan was granted.

I think that if Loans 2 Go had carried out more detailed checks on Miss B's income and outgoings, those checks would've shown that the monthly repayments on the new loan were unlikely to be sustainable. I say this because of the evidence of financial difficulty I outlined above. So I don't think Loans 2 Go acted fairly in granting this loan, and therefore I propose to uphold Miss B's complaint.

I've also considered whether Loans 2 Go acted unfairly or unreasonably in some other way given what Miss B has complained about, including whether its relationship with Miss B might have been viewed as unfair by a court under s.140A Consumer Credit Act 1974.

However, I'm satisfied the redress I have directed below results in fair compensation for Miss B in the circumstances of this complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case."

As both parties accepted my provisional decision, and no new evidence or information has been sent in, I have no reason to change my conclusions. Therefore I uphold Miss B's complaint.

Putting things right

I think it's fair and reasonable for Miss B to be responsible for the capital that she borrowed in October 2018, because she has had the benefit of that money. But she has paid interest and charges on a loan that shouldn't have been provided to her. Loans 2 Go must put this right. The loan was closed in December 2020, so Loans 2 Go should:

- remove all interest, fees and charges applied to this loan from the outset. The payments Miss B made should be deducted from the new starting balance – the £250 originally lent. The overpayments should be refunded to Miss B, together with interest at 8% simple a year* from the date they were made to the date of settlement.
- remove any adverse information recorded on Miss B's credit file in relation to the loan.

*HM Revenue & Customs requires Loans 2 Go to deduct tax from any award of interest. It must give Miss B a certificate showing how much tax has been taken off if she asks for one.

My final decision

For the reasons I've explained, I've decided to uphold Miss B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 18 November 2024.

Jan Ferrari
Ombudsman