DRN-5118763

## The complaint

Mr M has complained that Loans 2 Go Limited ("L2G") gave him a loan he couldn't afford to repay.

## What happened

Mr M was advanced one loan of £2,000 on 22 December 2023, and he was due to make 24 monthly repayments of £269.33. If Mr M repaid the loan in line with the credit agreement, he would've repaid a total of £6,463.92. The statement of account provided by L2G – which only goes up to May 2024, shows that until then Mr M had made his payments as expected.

Following Mr M's complaint, L2G explained it wasn't going to be upholding the complaint because the checks it conducted showed Mr M could afford his repayments. Unhappy with this response, Mr M referred the complaint to the Financial Ombudsman.

An investigator upheld Mr M's complaint about the loan because he said the credit check results given to L2G suggested that Mr M was already struggling to pay his existing credit commitments and was likely reliant on payday loans. He was therefore satisfied that L2G hadn't made a fair a lending decision.

L2G responded and didn't agree with the proposed outcome, and I've summarised its responses below.

- Mr M's credit report showed his accounts were up to date and he was within his credit limits and there was no adverse payment information.
- Given the lack of information on the credit file L2G didn't feel it needed to verify his information through bank statements.
- Given the marketplace that L2G operates in it isn't unusual to see some impaired credit file information.
- The checks at the time indicated that Mr M could afford his repayments.

These comments didn't change the investigator's mind and 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 Mr M's complaint. Having carefully considered everything I've decided to uphold Mr 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 is it needed to carry out proportionate checks to be able to understand whether Mr 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 lend to a customer irresponsibly.

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

Mr M declared he received an income of £5,000 per month from full time employment. L2G says Mr M's income figure was cross referenced through an online income verification tool – and having done this check L2G reduced Mr M's monthly income to £3,231.69. It was this reduced amount that was used for its affordability assessment and that seems fair.

As part of the application data provided by L2G, Mr M said that he had outgoings totalling £1,375 per month. L2G says that as part of its affordability assessment it used statistical data from the Office of National Statistics (ONS). Any values declared by Mr M which fell below the ONS trigger figure would then be uplifted. Having carried out this check, L2G decided that it needed to uplift Mr M's outgoings to £2,462.21 per month.

Based on the figure Mr M declared, and when taking into account the amount of expenditure that L2G discovered from its own checks, as well as the ONS adjusted expenditure figure, it still appeared that Mr M had sufficient disposable income to afford the loan.

As well as assessing Mr M's income and expenditure, L2G, also carried out a credit search and it has provided the results it received from the credit reference agency, and I've reviewed the results its provided.

Superficially, L2G was told that there was no adverse credit file, there were no defaults within the last six months, insolvencies, CCJs or missed payments. So L2G may have reasonably concluded that the monthly payments were affordable.

However, L2G was told that Mr M already had five loans outstanding, and these were costing £373 per month. The investigator concluded most of these were likely payday loans, whereas L2G says the credit search data suggested they weren't. But I would say, given the value of the loans and the monthly repayment it is likely some or all of them were either payday, home credit or high-cost credit loans.

And there were signs that Mr M was perhaps reliant on this form of credit, within the previous five months Mr M had settled four such accounts. Indeed, the most recent loan account had been repaid in the previous month.

Mr M also was using the maximum amount of credit limit available to him on his credit cards – in the month before the loan was approved, L2G was told that he was utilising 101% of this. And this is reflected in the information provided in the credit report, whereby Mr M was over his credit limit on an outstanding credit card. It also showed that Mr M had recently opened a number of credit cards within the previous six months and all of them were within a few pounds of the respective credit limit.

So, the information received by L2G, as part of its credit search and other checks was that

Mr M had overdeclared his income and had underestimated his living costs each month. He also had a number of loans outstanding and he seemed to be taking new loans on a fairly regularly bases – and given the repayment amounts these were likely payday / instalment loans. Overall, like the investigator I do think, although his loan payments may have appeared affordable that it wasn't sustainable for Mr M, given the sheer amount of credit he already had and so the checks along ought to have led it to not uphold the complaint.

But even if L2G hadn't considered that – at the very least there is an argument that given this information, it needed to make further checks into Mr M's finances to ensure he wasn't reliant on what appeared to be payday loans.

L2G could've gone about verifying Mr M's financial position a number of ways. It could've asked to see copies of bills, bank statements or any other documentation it felt may have been necessary to review.

I've have therefore considered what further checks are more likely than not to have shown. Mr M has provided us with copies of his bank statements as evidence of his financial circumstances at the time he applied for this loan. Of course, I accept different checks might show different things. And just because something shows up in the information Mr M has provided, it doesn't mean it would've shown up in any additional checks L2G might've carried out.

Had further checks been carried out – to be clear the information L2G received already ought to have led it to conclude the loan was unsustainable. Then L2G ought to have concluded from what its credit searches were already telling it – that the loans outstanding loans were likely to be payday loans. In the month before the loans were granted Mr M was advanced £1,100 of such loans and after these loans were advanced, Mr M then used them to spend on gambling websites.

So even if L2G had carried out further checks, to be clear I don't think that was necessary, in this situation then it would've backed up what its credit checks showed that Mr M was constantly seeking and being granted new credit and he already had a significant number of loans outstanding. As such, L2G ought to not have approved this loan.

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr M in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

**Putting things right**

- Remove all interest fees and charges from the loan and treat all payments made by Mr M as if they went towards the capital of the loan.
- If after this re-work Mr M has paid enough to repay the capital he borrowed, then any overpayments should be refunded to him along with 8% simple interest*. This should be calculated from the date the overpayment was made, to the date of settlement.
- If after reworking Mr M's loan account an outstanding balance remains, L2G should try and agree an affordable repayment plan with Mr M to repay the outstanding capital balance. I would remind L2G of its obligation to treat Mr M fairly and with forbearance.
- If no outstanding balance remains after all adjustments have been made, all adverse information L2G recorded about this loan should be removed from Mr M's credit file.

*HM Revenue & Customs requires L2G to deduct tax from this interest. L2G should give Mr M a certificate showing how much tax it has deducted, if he asks for one.

## My final decision

For the reasons I've outlined above, I am upholding Mr M's complaint.

Loans 2 Go Limited should put things right for Mr M as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 27 December 2024.

Robert Walker
**Ombudsman**