

Complaint

Mr C 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 C with a loan for £250 in December 2021. This loan had an APR of 770% and a term of 18 months. This meant that the total amount to be repaid of £925.02, including interest, fees and charges of £675.02, was due to be repaid in 18 monthly instalments of £51.39. This loan was repaid early with some of the funds from loan 2 in July 2022.

Loan 2 was for £371.48, £121.48 went to repaying the balance on loan 1 and £250 in cash went to Mr C. This loan also had an APR of 770% and a term of 18 months. This meant that the total amount to be repaid of £1,374.48, including interest, fees and charges of £1,003.00, was due to be repaid in 18 monthly instalments of £76.36. This loan was repaid early with some of the funds from loan 3 in March 2023.

Loan 3 was for £769.06, £119.06 went to repaying the balance on loan 2 and £650 in cash went to Mr C. This loan had an APR of 769.9% and a term of 18 months. This meant that the total amount to be repaid of £2,845.44, including interest, fees and charges of £2,076.38, was due to be repaid in 18 monthly instalments of £158.08.

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

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

My provisional decision of 9 December 2024

I issued a provisional decision – on 9 December 2024 - setting out why I was intending to uphold Mr C's complaint.

In summary, I was intending to uphold Mr C's complaint as I was satisfied that proportionate checks would have shown L2G that it shouldn't have provided Mr C with his loans.

Mr C' response to my provisional decision

Mr C did respond or provide anything further for me to consider ahead of my final decision.

L2G's response to my provisional decision

L2G responded disagreeing with my provisional decision. In summary, it said:

- while it accepted that its income checks verified a lower amount, this is the amount that it used in its affordability checks.

- there isn't sufficient evidence to indicate financial difficulty as the arrears prior to loan 1 had been reduced and prior to loans 2 and 3 Mr C not only had no arrears but maintained all of his payments.

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 C's complaint.

Having carefully considered everything, including what has happened since my provisional decision, I remain satisfied that Mr C's complaint should be upheld. 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 C 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 C's applications after he provided details of his monthly income and some information on his expenditure. It says it cross-checked this against information on credit searches it carried out and all of this information showed Mr C could afford to make the repayments he was committing to. On the other hand, Mr C has said he couldn't afford these loans and so shouldn't have been lent to.

I've carefully considered what L2G has said. But the credit checks it carried out showed Mr C had relatively recent arrears, on more than one account and L2G's checks also suggested that he 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 C's actual monthly expenditure even if L2G did rely on the lower amount its cross checking of Mr C's income showed rather than what he repaid.

I'm also concerned by the fact that Mr C was in sustained arrears on what appears to be a home collected credit account in the lead up to loan 1. Our investigator has said that he didn't consider this a problem because Mr C had reduced the arrears on this account. But even if that was the case, I don't think that this meant that L2G didn't need to know what his actual living expenses were. And I don't see how it was fair and reasonable to conclude that he was in a position to be able to sustainably repay a new loan.

So I think that both our investigator and L2G were incorrect to have disregarded Mr C's previous issues with credit as being a problem. L2G's response to my previous decision hasn't persuaded me to alter my conclusions on this matter.

I also think that this was even more important to find out more about Mr C's circumstances before loans 2 and 3 were provided, bearing in mind that he hadn't yet repaid his existing loans by this time either. While L2G has referred to Mr C having made all of the payments to

his loans, I think that this overlooks the fact that Mr C's consolidation of loan 1 into loan 2 and loan 2 into loan 3 shows that he was only able to repay these loans as a result of borrowing further. I think this in itself ought to have been concerning as Mr C was repaying as a result of borrowing further funds.

Given the interest rate that these loans were being consolidated at, there is an argument for saying that this in itself meant that the loans were unsustainable. Nonetheless, I don't think that this obviously demonstrates that Mr C was in financial difficulty.

In any event, bearing in mind all of this, I'm satisfied that L2G ought reasonably to have carried out further checks before providing these loans to Mr C.

I think further checks would have extended into finding out more about Mr C's expenditure. If L2G had done this here, I'm persuaded that it would have seen that Mr C was already in a difficult financial position at the respective times. He was borrowing from high-cost lenders and making payments to debt collectors. Furthermore, the most cursory look at the further information provided clearly shows why Mr C's finances were distressed.

As this is the case, I'm also satisfied that reasonable and proportionate checks would more likely than not have shown L2G that Mr C's existing precarious financial position was because he was struggling financially. So I remain satisfied that reasonable and proportionate checks would more like than not have shown L2G that it shouldn't have provided these loans to Mr C.

As L2G provided Mr C with these loans notwithstanding this, I'm satisfied that it failed to act fairly and reasonably towards him.

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

In reaching my conclusions, I've also considered whether the lending relationship between L2G and Mr C might have been unfair to Mr C under section 140A of the Consumer Credit Act 1974. However, I'm satisfied that my direction below results in fair compensation for Mr C given the overall circumstances of his complaint. I'm also satisfied that no additional award is appropriate in this case.

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

Having thought about everything, I'm satisfied that L2G should put things right for Mr C by:

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

† HM Revenue & Customs requires L2G to take off tax from this interest. L2G must give Mr C 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 9 December 2024, I'm not upholding Mr C'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 C to accept or reject my decision before 15 January 2025.

Jeshen Narayanan
Ombudsman