DRN-5486116

The complaint

Miss D, through a representative, says Loans 2 Go Limited irresponsibly lent to her.

What happened

This complaint is about three instalment loans Miss D took out from Loans 2 Go. A summary of her borrowing follows. Loans 2 and 3 were top up loans.

loan	taken out	value	term in months	monthly repayment	total repayable
1	Feb-20	£300	18	£68.57	£1,234.26
2	Sep-20	£500	18	£143.74	£2,587.32
3	Apr-21	£500	18	£201.84	£3,633.12

Miss D says she borrowed to repay other loans and couldn't afford the repayments. She ended up with multiple loans in payment plans and had to borrow from family to cover her priority bills.

Loans 2 Go says it carried out proportionate checks that showed the lending was affordable.

Our investigator upheld Miss D's complaint. He said Loans 2 Go's checks were proportionate but it did not make fair lending decisions based on the results.

Loans 2 Go disagreed with this assessment. It said the checks showed each loan was affordable and sustainable. Miss D's credit file evidenced that she was able to manage her existing credit commitments and was not in financial difficulties.

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. Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Miss D's complaint. These two questions are:

1. Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Miss D would be able to repay the loans without experiencing significant adverse consequences?

- If so, did it make fair lending decisions?
- If not, would those checks have shown that Miss D would've been able to do so?

2. Did Loans 2 Go act unfairly or unreasonably in some other way?

The rules and regulations in place required Loans 2 Go to carry out a reasonable and proportionate assessment of Miss D's ability to make the repayments under this agreement. This assessment is sometimes referred to as an affordability assessment or affordability check.

The checks had to be borrower focused – so Loans 2 Go had to think about whether repaying the loan would cause significant adverse consequences for Miss D. In practice this meant that business had to ensure that making the payments to the loan wouldn't cause Miss D undue difficulty or significant adverse consequences. 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 Miss D.

Checks also had to be proportionate to the specific circumstances of the loan application. In general, what constitutes 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/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the greater the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

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

Loans 2 Go has provided evidence to show that before lending it asked for some information from Miss D at the time of each loan. It asked for her monthly income, expenses and employment status. It completed an income verification check with a third-party and checked her living costs against national averages. As a result, for each loan it reduced her declared income and used the higher of her declared expenses or national statistics. It carried out a credit check to understand her credit history and existing credit commitments. Based on these checks Loans 2 Go concluded loans 1 to 3 would be affordable for Miss D leaving her with £150.10, £122.43 and £101.31 of monthly disposable income respectively.

I think these checks were proportionate given the value and term of the loans. However, I am not persuaded Loans 2 Go made fair lending decisions based on the information it gathered. I'll explain why.

The affordability and creditworthy assessments for each loan gave similar results. There was no recent adverse data on her credit file and she was not heavily indebted. But Miss D was on a relatively low salary and the disposable income she would be left with each time was minimal. It averaged less than £30 a week. I do not think this was a reasonable position to leave Miss D in, she would not have the necessary flexibility to cover seasonal or unexpected expenses.

In addition, the credit check from loan 1 showed an outstanding defaulted balance of £4,157 and whilst the default event was historic, Miss D had not been able to settle the debt almost four years later. Miss D returned to increase her borrowing just seven months after loan 1 and she had by then taken out another loan in March 2020 to repay an existing loan. By the time she applied for loan 3, again seven months later, Miss D had taken a further loan to repay the March 2020 loan. So I think it was clear Miss D had fallen into a cycle of debt and was borrowing to repay.

As Loans 2 Go knows it needed to be sure Miss D could make her repayments sustainably – so without borrowing to repay or suffering some other adverse financial consequence. I think given the limited disposable income Loans 2 Go's lending decisions left Miss D with there was a high risk she would end up repeat borrowing and using loan proceeds to repay other debts.

It follows I think Loans 2 Go was wrong to lend to Miss D.

I haven't found evidence it acted unfairly towards Miss D in some other way. I considered whether the relationship might have been unfair under Section140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Miss D in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right

I think it's fair and reasonable for Miss D to repay the capital that she borrowed, because she had the benefit of that money. But she has paid interest and charges on loans that shouldn't have been provided to her.

It should:

- Add up the total amount of money Miss D received as a result of being given all three loans. The payments Miss D made should be deducted from this amount.
- If reworking Miss D's loan accounts results in her having effectively made payments above the original capital borrowed, then Loans 2 Go should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- If reworking the accounts leaves an amount of capital still to be paid, then Loans 2 Go should work to agree an affordable repayment plan with Miss D.
- Remove any adverse information recorded on Miss D's credit file in relation to the loans once any capital balance outstanding has been repaid.

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*HM Revenue & Customs requires Loans 2 Go to deduct tax from this interest. Loans 2 Go should give Miss D a certificate showing how much tax it's deducted, if she asks for one.

My final decision

I am upholding Miss D's complaint. Loans 2 Go Limited must put things right as set out above..

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 27 June 2025.

Rebecca Connelley
Ombudsman