Financial Ombudsman Service

The complaint

Mr R, through a representative, says Loans 2 Go Limited irresponsibly lent to him.

What happened

Mr R took out two loans from Loans 2 Go. The first was for £400 over 18 months on 22 May 2019 with monthly repayments of £91.42. The second was for £1,000 over 18 months on 10 December 2019 with monthly repayments of £228.56.

He says the lender failed to conduct proper checks and could have done more prior to lending.

Our investigator upheld Mr R's complaint. She said whilst Loans 2 Go's checks were proportionate it did not make fair lending decisions based on the information it gathered.

Loans 2 Go disagreed with this assessment and asked for an ombudsman's review. It said whilst it agreed it should not have given loan 2 to Mr R it felt it was fair to offer loan 1. Mr R was managing his credit commitments at the time of the application. There was no evidence to support the investigator's view that Mr R was entering into a cycle of debt at the time - he opened only one new line of credit within the previous 12 months. There were no CCJs or open defaults listed. And Mr R maintained his contractual payments throughout the loan agreement which is a clear indication that the loan was sustainably affordable for him.

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 Mr R's complaint. These two questions are:

1. Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Mr R 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 Mr R 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 Mr R's ability to make the repayments under the agreements. 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 Mr R. In practice this meant that business had to ensure that making the repayments wouldn't cause Mr R 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 repayments on Mr R.

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 Mr R's complaint.

As the parties are now in agreement that loan 2 should not have been provided I need not comment further on that lending decision, and will focus on loan 1.

Loans 2 Go has provided evidence to show that before lending it asked for some information from Mr R. It asked for his monthly income, expenses and employment status. It completed an income verification check with a third-party and checked his living costs against national averages. As a result, it reduced his declared income and increased his declared expenses. It carried out a credit check to understand his credit history and existing credit commitments. Based on these checks Loans 2 Go concluded the loan 1 would be affordable for Mr R.

I think these checks were proportionate given the value of the loan and the stage in the lending relationship. But I don't think Loans 2 Go made a fair lending decision based on the information it gathered. I'll explain why.

Its checks showed Mr R had a minimum net monthly income of £1,631.20 and existing credit commitments of £524.85. So he was already spending around a third of a relatively low income to repay his current debt. By giving this loan Loans 2 Go increased the his credit commitments to 37% of his income and I think it ought to have realised this meant there was a high risk Mr R would struggle to make his repayments sustainably– so without borrowing to repay or suffering some other adverse financial consequence. There were already some indications he might be becoming reliant on credit – he had recently opened a credit card and maxed out the limit rapidly, his other active credit card was at its limit and his hire purchase agreement was frequently in arrears.

Loans 2 Go argues that Mr R maintained his contractual payments throughout the loan agreement which is a clear indication that the loan was sustainably affordable for him. But it knows from his second application that he took out short-term high-cost loans in May, July and October 2019 which does not suggest to me that he was managing his debt sustainably.

In the round I find Loans 2 Go was wrong to give loan 1 to Mr R, as well as loan 2 as previously agreed by the parties.

I've also 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 Mr R 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

I don't think Loans 2 Go ought to have given the loans to Mr R so I don't think it's fair for it to be able to charge any interest or charges. But it's reasonable Mr R should pay back the capital as he had the benefit of that money. Therefore, Loans 2 Go should:

Add up the total repayments Mr R has made and deduct these from the total amount of money Mr R received across loans 1 and 2.

a) If this results in Mr R having paid more than he received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement).*

Loans 2 Go should also remove all adverse information regarding this account from Mr R credit file.

b) If any capital balance remains outstanding, then Loans 2 Go should arrange an affordable and suitable payment plan with Mr R. Once Mr R has cleared the balance, any adverse information in relation to the account should be removed from his credit file.

As Loans 2 Go has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

*HM Revenue & Customs requires Loans 2 Go to take off tax from this interest. Loans 2 Go must give Mr R a certificate showing how much tax it's taken off if he asks for one.

My final decision

I am upholding Mr R'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 Mr R to accept or reject my decision before 15 July 2025.

Rebecca Connelley
Ombudsman