

complaint

Mr H says it was irresponsible for Loans 2 Go Limited (Loans 2 Go) to lend him money in 2018.

background

In March 2018, Loans 2 Go Limited lent Mr H £300. Mr H agreed to repay this, with interest, over 18 months.

Interest was charged at a simple fixed interest rate of 205.2% per year, applied in full at the start of the loan, equivalent to an APR of 990.1%.

The monthly repayments were £67.97. So if Mr H made each payment when it was due, he'd pay £1,223.46 in total.

Mr H made the first payment, when due, at the end of March. He then stopped further payments. Loans 2 Go issued a default notice and then a final demand in July 2018. Mr H then starting making further payments towards the debt.

Mr H thinks Loans 2 Go were irresponsible to lend him the money.

I issued my provisional assessment of this complaint on 9 April 2020. I said, based on what I'd seen, I thought the complaint should be upheld.

Loans 2 Go replied to say that it accepted my findings. Mr H says he agrees with my findings, but thinks he should also get additional compensation for the trouble and upset the actions of the business caused him.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I've taken into account relevant law and regulations; regulators' rules, guidance and standards; codes of practice; and what I consider to have been good industry practice at the time.

In this case, the rules that applied to Loans 2 Go were set out in the Financial Conduct Authority's handbook at CONC.

These provide that before making a regulated credit agreement, Loans 2 Go had to undertake an assessment of Mr H's creditworthiness.

Loans 2 Go had to consider the potential for the commitments under the credit agreement to adversely impact Mr H's financial situation, taking into account the information of which it was aware. It also had to consider the ability of Mr H to make repayments as they fell due over the life of the loan.

The rules don't prescribe specific checks that needed to be carried out in all cases. The checks Loans 2 Go did carry out needed to be proportionate, depending on the individual

circumstances of the lending. This might include the type and amount of the credit being sought and the potential risks to the customer.

The credit worthiness assessment had to take into account more than assessing the customer's ability to repay the credit. Loans 2 Go needed to take reasonable steps to assess Mr H's ability to meet the repayments under the agreement in a sustainable manner. This means that the repayments could be made by Mr H without undue difficulties – and in particular that he could make these payments on time, over the life of the agreement, while meeting other reasonable commitments, and without having to borrow to meet the repayments.

The rules also say that if a firm takes income or expenditure into account in its creditworthiness assessment, it's not generally sufficient for the firm to rely solely for on a statement of those matters made by the customer.

Finally, the rules list unfair business practices. In particular, the rules say a lender mustn't accept an application for credit where it knows or ought reasonably to suspect that the customer has not been truthful in completing the application in relation to information supplied by the customer relevant to the creditworthiness assessment.

I've taken the rules in CONC into account in reaching my decision.

In my provisional decision I said that the complaint should be upheld. I said:

“As I see it, the main questions I need to consider are:

- Did Loans 2 Go complete reasonable and proportionate checks to satisfy itself that Mr H could repay this loan in a sustainable way? If so, did it make a fair lending decision? If not, would those checks have shown that Mr H would be able to do so?
- Did Loans 2 Go act unfairly or unreasonably in some other way?

“I've first looked at the checks Loans 2 Go carried out before it lent the money. Loans 2 Go has sent us a copy of the information Mr H entered in his application. Mr H was borrowing £300 over a term of 18 months. He said he earned £2,000 a month, and listed £500 of expenses, including £50 a month on other credit commitments.

“Loans 2 Go says it then checked this by referring to a report from a credit reference agency. It says it verified Mr H's income as £1,267. And it worked out his monthly expenses and credit commitments were £996.03. So based on this, it concluded that the loan repayments were affordable.

“I've carefully considered what Loans 2 Go said it did. Having done so, I conclude that further checks would have been proportionate.

“First of all, the information Loans 2 Go said it got from the credit reference agency is significantly different from the information Mr H entered on the loan application. The monthly expenditure and commitments Loans 2 Go worked out based on the credit file are nearly double those entered by Mr H on the credit application. The income Loans 2 Go verified is significantly less.

“The rules that applied to Loans 2 Go at the time expressly said it mustn’t accept an application for credit if it ought reasonably to have suspected the consumer hadn’t been truthful in completing the application in relation to information relevant to the creditworthiness assessment. So I think Loans 2 Go should either have carried out further checks – to see if there were good reasons for this difference – or it shouldn’t have lent the money at all.

“I also see that the information on the credit file suggested Mr H was in financial difficulties. Two of the open loans listed on his credit file showed “arrangement to pay” markers – in one case Mr H was paying just £5 a month towards a balance of £750, while in the other the file showed that, despite reaching an arrangement with the lender, he’d still recently missed one of the payments. Mr H had three open credit card accounts, and had exceeded the credit limits on all of them. And looking at his accounts, I see further evidence of missed payments and arrangements to repay – and including the two open loans I’ve already mentioned, of the five loans shown on the credit file prior to taking out this new one, four had ended up with a payment arrangement, even if two were in the end settled.

“Based on what I’ve seen, therefore, it looks as though Mr H was already having difficulties meeting his existing credit commitments. In these circumstances, I think further checks to establish that Mr H could take on more credit would have been proportionate.

“So I’ve gone on to consider what further checks would most likely have revealed. Mr H has sent us bank statements from January to April 2018. Given the very serious concerns I’ve mentioned above, I think it would have been proportionate to have had sight of these. These show considerable levels of spending. Mr H’s statement for 9 February to 9 March, the month prior to this loan, shows Mr H spent over £6,000. Around £1,700 appears to have gone towards existing debts. Around £2,200 was spent on internet gambling.

“The statements also show Mr H was borrowing to finance his existing credit commitments.. The statement for 9 January to 8 February show Mr H drawing down around £750 in loans. I see that on 6 March 2018 Mr H borrowed around £910 from three separate lenders. I note that in the latter case, Mr H made matching payments to an internet gambling company on the same day.

“In any event, the fact that Mr H was borrowing a significant amount each month just to fund his existing expenditure and credit commitments means there was a very real prospect that Mr H would need to borrow again in order to repay his new credit commitment. Mr H had a history of entering payment arrangements with lenders. As such, had Loans 2 Go carried out further checks I think it would more likely than not seen that Mr H was unlikely to be able to sustainably make his payments.

“I’ve considered the further points Loans 2 Go has raised. It has referred me to decisions by other ombudsmen that have been published on our website. But those decisions were made in the particular context of other consumers’ complaints, involving other businesses. They don’t help me decide what is fair in this case. I haven’t looked at those other case files, and in any case, as I’ve already explained, creditworthiness assessments depend very much on the particular circumstances of the individual lending decision.

“Loans 2 Go has also said that it’s unfair to hold it responsible if Mr H gave inaccurate information in his application. But based on what Loans 2 Go has told us, it knew when it verified Mr H’s income and expenditure that there were reasons to believe some of this information might be incorrect. So I’m satisfied, given the rules and good industry practice at the time, that it’s fair to hold it accountable if it decided to lend anyway.”

Loans 2 Go says it agrees with my findings and with my proposals to put things right.

Mr H suggests he should get further compensation for the trouble and upset he thinks Loans 2 Go caused. I’ve thought about this. My award includes simple interest to compensate Mr H for the time he’s been deprived of the money. And I recognise that what happened to Mr H must have been stressful. Equally, I note that Mr H accepts that by applying for the loan some of this was in part his own fault.

putting things right

Loans 2 Go shouldn’t have given Mr H this loan. Mr H has now settled this account. So Loans 2 Go should:

- a) Add together the total repayments made by Mr H towards interest, fees and charges on the loan.
- b) Work out simple interest* (the rate is 8% per year) on the individual payments made by Mr H which were considered as part of (a), from the date Mr H originally made the payment to the date the complaint is settled.

Loans 2 Go should then pay Mr H the amounts calculated in (a) and (b).

- c) Loans 2 Go should then remove any adverse information recorded on Mr H’s credit file in relation to this loan.

*HM Revenue & Customs requires Loans 2 Go to deduct tax from this interest. It should give Mr H a certificate showing how much tax it has deducted, if Mr H asks for one.

my final decision

For the reasons above, my final decision is that Mr H's complaint should be upheld. Loans 2 Go should put things right by doing what I've said above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 22 July 2020.

Edward Hardman
ombudsman