complaint

Mr B complains that Loans 2 Go Limited sold him a loan he couldn't afford because it didn't do proper affordability checks. The loan was secured on his car, which was repossessed and sold for much less than it was worth.

background

In November 2014 Mr B borrowed a four-figure sum of money from Loan 2 Go. The loan was secured on his car. He immediately fell behind with his repayments, and the car was repossessed and sold for about £4,000 in early 2015. Mr B says it was worth £11,000. Even after deducting the proceeds of the sale, the outstanding balance on the loan is a five-figure sum. He complained that Loan 2 Go had not done proper affordability checks, and he complained about the sale of the car. Loans 2 Go said it had done a proper assessment of Mr B's income and expenditure ("I&E") in November, and his disposable income had shown that he could afford the loan. So Mr B complained to our service.

Our adjudicator upheld this complaint. She said that an I&E assessment in October 2014 for an earlier loan had showed that Mr B's disposable income was less than the repayments that were due on the loan. So she recommended that Loans 2 Go waive all of the interest and charges on the loan, so that Mr B only has to repay the capital. But she didn't think Loans 2 Go had been wrong to repossess the car.

Loans 2 Go did not accept that opinion. It argued that the October I&E had been superseded by the November one. And Mr B maintained that his car should not have been repossessed and sold. So this complaint has been passed to me for an ombudsman's decision.

my findings

I have considered all the available evidence and arguments to decide what is fair and reasonable in the circumstances of this complaint.

Mr B has had a total of three loans with Loans 2 Go. This complaint is about the third one. His repayments on the first loan were £400 a month. He declared this in his outgoings on the I&E form for his second loan application in October 2014. He said he still had ten loan repayments to go. Taking these repayments into account, and his mortgage repayments, Mr B was left with a disposable income of £580 a month.

The repayments on the second loan were £217.50 a month. Mr B declared these repayments in his I&E form for his third loan application in November 2014. But he didn't declare the £400 a month repayments on the first loan. Nor did he declare his mortgage repayments, which were £485 a month. This appeared to leave him with a disposable income of about £1,335 a month. Since the repayments on the third loan were £660 a month, the loan appeared to be affordable. But it wasn't affordable, because his disposable income was really only £450 a month.

It's partly Mr B's fault that he has taken a loan he can't afford, because he should have declared all of his outgoings. I've considered whether I should reject this complaint for that reason. But the outgoings he failed to declare were both known to Loans 2 Go. It knew about his other loan, because Loans 2 Go was the lender. And it knew about his mortgage, because he had declared it one month before. Even if (as appears to be the case) Loans 2 Go didn't realise that Mr B had declared this a month earlier, I think that Loans 2 Go should have asked Mr B more questions when it saw that he had not entered anything for his rent or mortgage. He was 60, so it wasn't likely that he was still living with his parents for free.

The Office of Fair Trading's guidance to creditors on irresponsible lending says that the following practices may amount to irresponsible lending:

> "4.29 Failing to take adequate steps, so far as is reasonable and practicable, to ensure that information on a credit application relevant to an assessment of affordability is complete and correct. This includes all/any information supplied by the borrower.
>
> "4.31 Accepting an application for credit under circumstances in which it is known, or reasonably ought to be suspected, that the borrower has not been truthful in completing the application for credit with regards to the information supplied relevant to inform an assessment of affordability."

I think these practices amount to irresponsible lending in this instance.

I also note that after making 11 monthly payments of £660, Mr B was then expected to make a final payment of £7,260. He could only afford that if his application to a third party for a bridging loan was successful. As things turned out, it wasn't. No consideration appears to have been given to how Mr B would repay the loan if he didn't get the bridging loan.

For these reasons, I uphold this complaint. I will require Loans 2 Go to waive the interest and charges on the loan (which I understand come to £7,950).

However, Mr B will remain liable to repay what he borrowed. When he took the loan he agreed that, if he became unable to repay it, then Loans 2 Go would be able to repossess his car and sell it. That's what happened, and Loans 2 Go was entitled to do that. Mr B should have expected that to happen, given his real outgoings, so I don't think it makes a difference that the loan shouldn't have been sold in the first place. And repossessed goods are often sold at auction for less than they are worth, so I don't think it's Loans 2 Go's fault that it only made £4,000 from the sale.

my final decision

My decision is that I uphold this complaint. I order Loans 2 Go Limited to write off all of the interest and charges on the loan.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 14 March 2017.

Richard Wood
ombudsman