

complaint

Mr M complains that Loans 2 Go Limited lent to him in an irresponsible manner.

background

Mr M was given a single loan by Loans 2 Go. He borrowed £250 in April 2018 and agreed to repay the loan in 18 monthly instalments. Mr M successfully repaid the loan in May 2019.

Mr M's complaint has been assessed by one of our adjudicators. She didn't think that the checks Loans 2 Go had done before agreeing the loan had been sufficient. And she thought that better checks would have led to Loans 2 Go discovering that it was unlikely Mr M would be able to repay the loan in a sustainable manner. So she thought the complaint should be upheld and asked Loans 2 Go to pay Mr M some compensation.

Loans 2 Go didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process. If Mr M accepts my decision it is legally binding on both parties.

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 set out our approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding Mr M's complaint.

The rules and regulations at the time Loans 2 Go gave this loan to Mr M required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. 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 credit sustainably would cause difficulties or adverse consequences for Mr M. In practice this meant that Loans 2 Go had to ensure that making the repayments wouldn't cause Mr M undue difficulty or 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 any repayments on Mr M.

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.

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

- the *lower* a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);

- the *longer* the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether Loans 2 Go did what it needed to before agreeing to lend to Mr M.

Loans 2 Go gathered some information from Mr M before it agreed the loan. It asked him for details of his income, and his normal expenditure. It then used some industry statistical data to revise Mr M's declared expenditure upwards. And it checked his credit file to review his use of other credit facilities.

Mr M was entering into a significant commitment with Loans 2 Go. He would need to make monthly repayments for a period of 18 months. So I would expect that Loans 2 Go would want to gather, and independently check, some detailed information about Mr M's financial circumstances before it agreed to lend to him. I don't think that the checks it did were enough. I think it would have been proportionate for Loans 2 Go to independently check the true state of Mr M's finances before agreeing the loan.

But although I don't think the checks Loans 2 Go did before agreeing the loan were sufficient, that in itself doesn't mean that Mr M's complaint should succeed. I'd also need to be persuaded that what I consider to be proportionate checks would have shown Loans 2 Go that Mr M couldn't sustainably afford the repayments. So I've looked at Mr M's bank statements, and what he's told us about his financial situation, to see what better checks would have shown Loans 2 Go.

At this stage I want to be clear that I am not suggesting that this is the exact check that Loans 2 Go should have carried out. I do think Loans 2 Go needed evidence to corroborate what Mr M said was happening with his finances. And looking at his bank statements is one way of achieving that although there are of course many other ways that level of detail could be established. But I think that by looking at Mr M's bank statements I can get a good idea of what better checks might have shown.

It is clear, from even the most cursory examination of Mr M's bank statements, that he was facing serious problems with his finances when he took the loan from Loans 2 Go. In the month immediately preceding the loan he'd borrowed from at least six other short term lenders. And in that month he'd spent over 90% of his normal income on what appear to be online gambling transactions.

I think that is information that Loans 2 Go would have established from what I consider to be proportionate checks. But I'd also note that the credit report Loans 2 Go received showed that Mr M was borrowing regularly from other short term lenders. Loans 2 Go has said it was reassuring that Mr M was repaying his credit on time, and had closed a number of loans shortly before applying for this loan. But he'd only done that by borrowing heavily from other lenders. That is not a sustainable method of repayment.

So I don't think that, what I consider to be, proportionate checks would have led a reasonable lender to conclude Mr M's loan application should be approved. I don't think Loans 2 Go should have given this loan to Mr M, and it needs to pay him some compensation.

putting things right

I don't think Loans 2 Go should have agreed to lend to Mr M in April 2018. So Loans 2 Go should;

- refund all the interest and charges Mr M paid on the loan
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†
- remove any adverse information recorded on Mr M's credit file in relation to the loan.

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

my final decision

My final decision is that I uphold Mr M's complaint and direct Loans 2 Go Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 29 November 2020.

Paul Reilly
ombudsman