

complaint

Mr S complains Loans 2 Go Limited irresponsibly lent to him. He says Loans 2 Go didn't complete reasonable and proportionate checks before deciding to lend to him. Mr S complains had Loans 2 Go done so, it would've seen the loan was unaffordable.

background

Loans 2 Go approved Mr S for a loan in September 2017 for £250. The loan was to be paid over 18 monthly repayments of £56.64. Mr S made 9 monthly repayments before settling the loan early.

Mr S complained to Loans 2 Go saying the loan was unaffordable to him. He says had Loans 2 Go completed reasonable and proportionate checks it would've seen he was in financial difficulties – including using his overdraft and taking out other loans (including payday loans).

Loans 2 Go says it completed reasonable and proportionate checks before lending to Mr S. And based on those checks the decision to lend was fair as the amount was affordable. Loans 2 Go explained to this service it completed an income and expenditure check, as well as checking Mr S credit file before lending to him. It also says Mr S was able to meet his repayments and settle the loan early; showing it was affordable.

Our investigator considered the complaint and upheld it. In upholding the complaint, he highlighted the approach our service takes to complaints of unaffordable and irresponsible lending – including the overarching question of reasonable and proportionate checks. Our investigator felt Loans 2 Go hadn't completed reasonable and proportionate checks; and had it done so it would've seen the loan was unaffordable for Mr S.

In coming to this conclusion our investigator highlighted that based on the checks Loans 2 Go had conducted, it should ought to reasonably have completed further detailed checks to better understand Mr S's financial situation. He argued had it done this, Loans 2 Go would've seen Mr S's dependency on his overdraft as well as other loans in order to meet his outgoing commitments. Our investigator also highlighted further checks would've likely shown Mr S's second current account which was being used to facilitate his online gambling.

Loans 2 Go disagreed with our investigator, saying it completed relevant checks including completing an income and expenditure check, and checking Mr S's credit file. It says based on this information, it calculated Mr S had disposable income per month of approximately £90-100, and as such the loan repayment was affordable.

As no agreement could be reached the matter has been passed to me to issue a final decision on.

my findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Having done so, I'm upholding Mr S's complaint.

We've set out our approach to complaints about irresponsible and unaffordable lending on our website. And I've used this approach to help me decide Mr S's complaint.

Loans 2 Go needed to carry out reasonable and proportionate checks to be able to understand if any lending was affordable to Mr S. The relevant rules don't set out which specific checks it has to complete for them to be reasonable and proportionate. But relevant checks could include things such as a customer's income (over the full term of the loan), and their outgoing expenses. These checks should also be reasonable and proportionate to the amount of credit being provided including the total amount of credit, amount of repayments and total length of the term.

As Loans 2 Go gave Mr S an instalment loan, the checks which it conducted had to provide enough information for it to be able to decide if Mr S could afford the instalment payments when they became due for the duration of the intended term.

Loans 2 Go says it completed an income and expenditure check, as well as a credit check before lending to Mr S. It says these checks were reasonable and proportionate before deciding to lend to Mr S.

I've reviewed the information which has been provided following these checks. It shows after reviewing Mr S's credit file and applying a 5% deduction to his income (Loans 2 Go says it does this to build in changes in expenses), that Mr S had approximately £90-100 disposable income per month. The credit file also shows Mr S was in his current account overdraft by approximately £1,200.

Considering this I'm not satisfied these checks alone were enough to persuade me reasonable and proportionate checks were completed. Having seen Mr S was in his overdraft by a considerable amount, and having little disposable income a month, I think Loans 2 Go ought reasonably to have conducted further checks to understand Mr S's financial situation in more detail. It could have done this through the requesting of bank statements.

Had it done this it would've been in a better position to understand if Mr S could've afforded the loan repayments being committed to.

Reviewing Mr S's bank statements shows he was not managing his finances well. As mentioned above he was regularly in his overdraft and was supplementing this with payday loans in order to meet his essential outgoings. There are also a large number of transfers from this account to a second current account. Had Loans 2 Go requested these bank statements it could've asked more probing questions about the way Mr S manages his finances. In particular it would've seen that the months prior to Mr S applying for the loan, he was in his overdraft daily, and had taken four separate pay day loans in order to meet his outgoing commitments.

Loans 2 Go says Mr S used his second account to pay for some of his repayments, and this could've been used to meet his outgoings. Our service has reviewed the bank statements from this account, and it is evident it was being used to facilitate online gambling with no additional disposable income being present.

Again Loans 2 Go may've been able to understand this situation better had it conducted further checks in order to verify some of the questions posed in the information it gathered. Had it done so, I think it would've realised Mr S's financial situation was significantly worse

than it thought, and that by lending further to him, Loans 2 Go was unfairly increasing his total indebtedness.

So on that basis, I'm satisfied that the decision to lend to Mr S wasn't a fair one as the loan was unaffordable to him.

Finally, I don't accept Loans 2 Go's argument that Mr S's ability to meet his monthly repayments shows the loan was affordable to him. I disagree with this argument, as a lender is required to understand whether a potential borrower can make any payments without undue difficulty or borrowing further. And as I've explained above, it is evident Mr S was using his overdraft and payday loans in order to supplement his outgoing expenses. So, in this case, Mr S making his payments doesn't persuade me that he was able to sustainably make his loan payments at the time Loans 2 Go decided to lend to him.

my final decision

My final decision is that I uphold Mr S's complaint.

I require Loans 2 Go Limited to:

- Refund all interest and charges Mr S paid on his loan;
- pay Mr S 8% simple interest on the refunded interest and charges from the date they were paid to date of settlement†;
- Remove any adverse information on Mr S's credit file in relation to this loan.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 20 March 2020.

Tom Whittington
ombudsman

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