

complaint

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

background

Loans 2 Go gave one loan to Mr O. He borrowed £300 in May 2018 and was due to repay the loan in 18 monthly instalments of £67.97. Mr O fell into financial difficulties before making any repayments on his loan, and at the time he made his complaint the outstanding balance had been transferred to a debt recovery company.

Mr O's complaint has been assessed by one of our adjudicators. She didn't think the checks Loans 2 Go had done before agreeing the loan were sufficient. And she ultimately thought that better checks would have shown it was unlikely that Mr O would be able to repay the loan in a sustainable manner. So she didn't think Loans 2 Go should have given this loan to Mr O and she asked it to put things right.

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 O 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 O's complaint.

The rules and regulations at the time Loans 2 Go gave this loan to Mr O 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 O. In practice this meant that Loans 2 Go had to ensure that making the repayments wouldn't cause Mr O 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 O.

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 O.

Loans 2 Go gathered some information from Mr O before it agreed the loan. It asked him for details of his income, and his normal expenditure. And it checked his credit file. Loans 2 Go has sent us a copy of the results of its credit check, and I will discuss these further later in this decision.

Mr O 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 O's financial circumstances before it agreed to lend to him. I don't think that simply asking Mr O to self-declare his income and expenditure was enough.

The credit check that Loans 2 Go did before agreeing the loan showed that Mr O had previously faced some problems managing his credit. He had needed to enter payment arrangements on credit card, utility and bank accounts. And although he now appeared to have brought his finances back under a degree of control, those problems weren't so historic that I think it would have been reasonable for Loans 2 Go to entirely discount them.

So I think it would have been proportionate for Loans 2 Go to independently check the true state of Mr O's finances before agreeing the loan. I don't think the checks Loans 2 Go did were proportionate to either the term of the loan or what it knew about Mr O's past financial history.

I've looked at copies of Mr O's bank statements from the time to understand what better checks might have shown to the lender. From those statements it is clear that Mr O would be unlikely to repay this loan in a sustainable manner. Mr O was spending far more than his normal income on what appear to be online gambling transactions. And he was funding this spending, in part, by borrowing from a number of other lenders - loans that he would need to repay at the same time as this loan.

I think that if Loans 2 Go had done what I consider to be proportionate checks when Mr O applied for this loan it would have seen the problems he was facing managing his money. And so, as a responsible lender, I think it would have declined this loan application. So I think Loans 2 Go needs to put things right for Mr O.

putting things right

Although I don't think Loans 2 Go should have given this loan to Mr O, he has had the benefit of the principal amount that he borrowed. I think it is fair and reasonable for me to expect Mr O to repay that principal amount to Loans 2 Go. I understand that Loans 2 Go has now sold Mr O's debt to a third party. So to put things right Loans 2 Go should;

- Calculate the total of interest and charges that it, or the third party debt collection company, has added the principal amount that Mr O borrowed .
- Arrange with the third party to reduce Mr O's outstanding balance by the amount of interest and charges calculated above. If that is not possible the total of the interest and charges should be refunded directly to Mr O so he can choose whether or not to use the refund to reduce his outstanding balance.
- Attempt to agree an affordable repayment arrangement with Mr O for any remaining balance, or encourage the third party that now owns the debt to do so.
- Remove any adverse information from Mr O's credit file in relation to the loan.

my final decision

My final decision is that I uphold Mr O'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 O to accept or reject my decision before 2 September 2020.

Paul Reilly
ombudsman