

The complaint

Mr G complains that Loans 2 Go Limited failed to carry out reasonable and proportionate checks when offering him a loan.

What happened

In November 2018 Mr G applied for a £750.00 loan with Loans 2 Go. The loan was to be repaid over a period of 18 months with a monthly repayment of £169.92. The Annual Percentage Rate of charge (APR) was 990.1%.

In February 2020 with the assistance of a professional representative, Mr G complained to Loans 2 Go about the lending decision. He said that it had failed to properly assess his affordability, not completing reasonable and proportionate checks. He said had these been completed, it would have been clear the loan was unaffordable and the lending decision was irresponsible. He asked that Loans 2 Go refund the interest and charges applied to the loan account and remove any adverse information from his credit file.

Loans 2 Go explained why it didn't think it had done anything wrong when it provided Mr G with the loan and he brought his complaint to this service to consider.

Our investigator looked at Mr G's complaint and said that she felt Loans 2 Go had done something wrong. She believed the information on Mr G's credit file and recent loan applications, together with the information about his declared disposable income compared to the loan amount requested, indicated further checks would have been reasonable. She couldn't say what these checks would have been but felt reviewing Mr G's bank statements for the three months prior to the application would have been a sensible starting point. From this she said it was clear Mr G had no set monthly income and that he was relying on friends and family to get by at times. So in effect, he had no disposable income and further checks would have shown the loan was unaffordable. She asked Loans 2 Go to refund the interest and charges applied to the account and remove any negative information on his credit file as a result of these charges to put things right.

Loans 2 Go disagreed. It didn't think it would have been reasonable to ask for Mr G's bank statements and review these. It had reviewed Mr G's credit file when the loan was taken out and this didn't indicate any areas of concern so it felt it had carried out reasonable and proportionate checks and made a fair lending decision.

Because Loans 2 Go disagreed, the complaint has been passed to me for decision.

What I've decided – and why

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

I've decided to uphold this complaint for much the same reasons as our investigator and will explain why.

This services approach to unaffordable/irresponsible lending is detailed on our website and I've followed this approach when considering Mr G's complaint.

The FCA's relevant regulatory framework for lending is set out in the Consumer Sourcebook (CONC). This places an obligation on Loans 2 Go to lend responsibly and complete a credit worthiness assessment, giving consideration to whether the lending is likely to adversely impact the consumer and their situation.

Loans 2 Go has explained in some detail the checks it carried out to assess Mr G's credit worthiness and why it feels these checks were reasonable and proportionate in relation to the size and duration of the loan. It doesn't think from these there was a need to review his bank statements too.

There are no set checks that need to be completed, although CONC does give examples of the common things it expects to be considered. The checks should take account of the consumers individual circumstances and so it follows that what might be deemed reasonable and proportionate for one person might not be for another. I've considered first of all whether I think the checks carried out by Loans 2 Go were reasonable and proportionate to determine whether it was likely Mr G was able to afford his loan repayments in a sustainable way.

Loans 2 Go has said the information returned on Mr G's credit file didn't give any cause for concern and this, together with its affordability assessment led it to believe the loan was affordable and no further checks were needed. I think the checks and information gathered when the loan was taken out indicate that further checks were required.

Six months before the loan with Loans 2 Go was taken out, Mr G took out two loans with other providers with a total balance of nearly £20,000. Although the repayment history didn't indicate any issues with this borrowing when the application with Loans 2 Go was made it did show other accounts had been defaulted in recent years and Mr G had struggled to meet his agreed payments on some of his accounts. Mr G also said he had a disposable income of over £1500.00 when the application was made. Loans 2 Go said its checks identified the income and disposable income was lower than this but that it still felt the loan was affordable and the checks proportionate. But I think it still indicated that Mr G might not be able to afford the loan repayments in a sustainable way. And I think further checks should have been carried out to determine why Mr G needed the additional funds and whether the loan was affordable.

I think it would have been reasonable and proportionate to ask to see Mr G's bank statements. The loan was for a relatively small amount but with the interest charged Mr G would have been repaying considerably more and its difficult to understand why this was needed if he had the level of income he said he did.

The Bank statements show that Mr G was often borrowing money from friends and had no stable monthly income. So although he said he had a regular income which resulted in his disposable income, this wasn't the case. And because of this, I think it would have been evident that it was unlikely Mr G was able to repay the loan in a sustainable way had further checks, like reviewing his bank statements been carried out.

Had Loans 2 Go completed reasonable and proportionate checks it would have shown Mr G was unlikely to be able to repay the borrowing in a sustainable way. Had this happened Mr G wouldn't have been lent the money. But Mr G has had the benefit of the money borrowed and it's right that he repays this now. I've explained below what I think Loans 2 Go needs to do to now put things right.

Putting things right

To put things right, Loans 2 Go Limited should do the following:

1. Refund all interest and charges applied to Mr G's loan account.
2. If the borrowing is still in place, it should reduce the outstanding capital balance by the amount calculated in step 1.
3. If after step 2 a capital balance remains, Loans 2 Go should ensure Mr G isn't subject to any historic or future interest and/or charges. But if after step 2 a positive balance remains, this should be paid to Mr G with 8% simple interest* added.
4. Loans 2 Go should also remove any adverse information recorded on Mr G's credit file as a result of the interest and charges.

*HM Revenue and Customs requires business to take off tax from interest. If this is the case, Loans 2 Go must provide Mr G with a statement of any tax paid upon request.

My final decision

For the reasons explained above, I uphold Mr G's complaint against Loans 2 Go Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 24 June 2022.

Thomas Brissenden
Ombudsman