DRN-3206943

The complaint

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

What happened

Mr L was given two loans by Loans 2 Go. He first borrowed £750 in August 2018 and agreed to repay the loan in 18 monthly instalments. Around seven months later Mr L refinanced his first loan and took some additional borrowing. So, in March 2019, he borrowed £1,000 that he again agreed to repay in 18 monthly instalments. Mr L has faced problems repaying his loan and a balance remained outstanding when he made his complaint.

Mr L's complaint has been assessed by one of our investigators. He thought the results of Loans 2 Go's checks should have led the lender to conclude that Mr L was facing serious problems managing his money. So he didn't think either loan should have been agreed and he asked Loans 2 Go to put things right for Mr L.

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 L accepts my decision it is legally binding on both parties.

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.

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

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

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 L.

Loans 2 Go gathered some information from Mr L before it agreed each loan. It asked him for details of his income, and his normal expenditure. And it checked his credit file to assess how much he was repaying to other creditors and how he had managed credit in the past.

Mr L was entering into a significant commitment with Loans 2 Go at the time of each loan. He would need to make monthly repayments for a period of 18 months. So I think it was right that Loans 2 Go wanted to gather, and independently check, some detailed information about Mr L's financial circumstances before it agreed to lend to him. I think that the checks I've described above were sufficient to achieve that aim – I think that Loans 2 Go's checks were proportionate.

But simply performing proportionate checks isn't always enough. A lender also needs to react appropriately to the information shown by those checks. Those results might sometimes lead a lender to undertake further enquiries into a consumer's financial situation. Or, in some cases, the results might lead a lender to decline a loan application outright. And that is what I think should have happened in this case.

The credit check at the time of the first loan showed that Mr L was making extensive use of other credit facilities. He had at least ten other active accounts with a combined balance of over £9,000. Many of those accounts were credit or store card accounts that were approaching their agreed limits. And the results showed that Mr L was in arrears on at least two of his loans.

As Loans 2 Go will be aware, consumers that have faced problems managing their money in the past, are more likely to face similar problems in the future. But Mr L's problems weren't simply in the past – he appeared to be facing very real problems at the time he asked for the loan. So I think that Loans 2 Go should have concluded that it would be unlikely he could sustainably take on any additional debt – since he was clearly finding it difficult to service the debt he already held – and so it shouldn't have given the loan to him.

Mr L faced problems making his repayments on the first loan. He made the first three repayments as planned. But he then failed to make any repayments for the next two months. After making two further repayments, Mr L asked Loans 2 Go to refinance his loan – taking some additional borrowing, but extending his repayment term by an additional 18 months. And the monthly repayment he would need to make had increased by over 30%. I cannot see any reasonable grounds for Loans 2 Go to conclude that any problems Mr L had previously faced were now behind him, and that he would not only be able to meet the repayments he had agreed on the first loan, but to increase the level of his repayments by taking additional borrowing.

And the results of the credit check clearly showed that Mr L's finances hadn't improved. He now had at least 11 other credit accounts with a number of accounts either being in arrears, arrangements to pay, or in excess of their agreed credit limit.

So I don't think it was reasonable for Loans 2 Go to give either loan to Mr L. It follows that I think his complaint should be upheld, and that Loans 2 Go needs to put things right.

Putting things right

I don't think Loans 2 Go should have agreed to lend to Mr L in August 2018, or March 2019. So Loans 2 Go should;

- refund all the interest and charges Mr L paid on the first 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 interest and charges still outstanding on the second loan and treat all the payments Mr L made towards this loan as payments towards the capital

- if reworking Mr L's loan 2 account as I've directed results in Mr L effectively having made payments above the original capital borrowed, then Loans 2 Go should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement†.

- If reworking Mr L's loan 2 account leaves an amount of capital still to be paid, then Loans 2 Go can use the total refund for the first loan (after the deduction of tax) to offset this. And if there is still an outstanding capital balance then I remind Loans 2 Go that it should take a sympathetic view when seeking to agree an affordable repayment arrangement with Mr L.

- remove any adverse information recorded on Mr L's credit file in relation to both loans

† HM Revenue & Customs requires Loans 2 Go to take off tax from this interest. Loans 2 Go must give Mr L 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 L'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 L to accept or reject my decision before 21 April 2022.

Paul Reilly
Ombudsman