DRN-3313096

The complaint

Ms P says Loans 2 Go Limited lent to her irresponsibly.

What happened

Ms P took out an 18-month loan for £400 from Loans 2 Go on 4 February 2020. The monthly repayments were £91.42 and the total repayable was £1,645.56.

Ms P says as she was self-employed Loans 2 Go ought to have realised her income could vary. Overall, insufficient checks were carried out by the lender. She incurred bank charges as a result of this loan.

Our adjudicator said Ms P's complaint should be upheld. He found the lender's checks were proportionate, but it did not make a fair lending decision based on the information it gathered.

Loans 2 Go disagreed. It said, in summary, Ms P's credit check showed she was managing her existing credit well and there was nothing to suggest further checks were necessary. The monthly repayments were less than 4% of Ms P's declared monthly income.

As an agreement wasn't reached the complaint was passed to me to make a final 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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The rules and regulations when Loans 2 Go lent to Ms P required it to carry out a reasonable and proportionate assessment of whether she could afford to repay what she owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So Loans 2 Go had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Ms P. 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 the loan repayments on Ms P.

Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up 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 and cost of credit they have applied for. 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 Ms P. So to reach my conclusion I have considered the following questions:

- did Loans 2 Go complete reasonable and proportionate checks when assessing Ms P's loan application to satisfy itself that she would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did Loans 2 Go make a fair lending decision?
- did Loans 2 Go act unfairly or unreasonably in some other way?

I can see Loans 2 Go asked for some information from Ms P before it approved the loan. It asked for her monthly income and expenditure. It checked her declared income using an income verification tool and reduced it accordingly. It increased her declared expenditure to ensure it was reasonable based on national statistics. It checked Ms P's credit file to understand her existing monthly credit commitments and credit history. From these checks combined Loans 2 Go concluded Ms P had enough disposable income for the loan to be affordable.

I think these checks were proportionate given the size and term of the loan and its repayments, but I don't think Loans 2 Go made a fair lending decision based on the information it gathered. I'll explain why.

Ms P declared a monthly income of £2,750. Loans 2 Go adjusted this figure as part of its affordability assessment to £1276.25. This was based on the income verification it carried out.

Loans 2 Go also completed a credit check that allowed it to understand how much Ms P needed to spend each month to meet her existing credit commitments. This was £364.60, assuming a 5% repayment of her revolving credit balances to meet the contractual minimum payments and to allow for paying down the balances sustainably.

By giving this loan Loans 2 Go increased the amount Ms P needed to commit to repaying credit to over a third of her monthly net income. I think from this the lender ought to have realised there was a risk Ms P would be unable to sustainably repay her loan over its term, possibly more so as she was self-employed. And I can't see Loans 2 Go took any borrower-focused steps to understand the monthly variability of her income. The lender needed to consider the sustainability of the repayments, not just the pounds and pence affordability, to meet its regulatory commitments.

It follows I think Loans 2 Go was wrong to give the loan to Ms P.

Did Loans 2 Go act unfairly or unreasonably in some other way?

I don't find that it did. Ms P said the loan caused her to incur bank charges. Our adjudicator asked for details of these bank charges. Ms P did not provide any detail but sent in bank statements. But these are for three of the four months prior to this loan application so do not provide any clarity about this complaint point. It follows based on the available evidence I cannot comment further on Ms P's claim.

Putting things right

I think it's fair and reasonable for Ms P to repay the capital that she borrowed, because she had the benefit of that money. But she has paid interest and charges on a loan that shouldn't have been provided to her.

Loans 2 Go should now:

- Remove all interest, fees and charges from the loan and treat all the payments Ms P made as payments towards the capital.
- As reworking Ms P's loan account will result in her having effectively 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*.
- Remove any adverse information recorded on Ms P's credit file in relation to the loan.

*HM Revenue & Customs requires Loans 2 Go to deduct tax from this interest. Loans 2 Go should give Ms P a certificate showing how much tax it's deducted, if she asks for one.

My final decision

I am upholding Ms P's complaint. Loans 2 Go Limited must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms P to accept or reject my decision before 3 May 2022.

Rebecca Connelley
Ombudsman