

## The complaint

Ms P has complained that Loans2Go Limited lent to her irresponsibly.

## What happened

I issued a provisional decision in March 2022 that I summarise below

Ms P was given two loans by Loans2Go in 2019.

Loan 1 in August 2019 was for £400 repayable over 18 months in monthly instalments of around £91. The total amount payable if the loan ran to term, including interest was just over £1,645. Ms P changed her mind about this loan a few days after taking it and paid a withdrawal fee for the loan to be cancelled.

Loan 2 in October 2019 was for £300 repayable over 18 months in monthly instalments of around £68. The total amount payable if the loan ran to term, including interest was just over £1,234. I understand Ms P had difficulties repaying this loan and the debt was sold to a third party.

In my provisional decision I explained the basis on which I would decide the complaint, in particular the checks that Loans2Go needed to do such as the amount being lent, and the consumer's income and expenditure.

I said that Loans2Go needed to take reasonable steps to ensure that it didn't lend to Ms P irresponsibly. And that Loans2Go had to carry out proportionate checks each time to satisfy itself that she could repay the loans in a sustainable way.

I thought 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 loan repayments to a given loan amount from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the *longer* the term of the loan (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make payments for an extended period); and
- the *greater* the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

Loans2Go was required to establish whether Ms P could sustainably repay her loans – not

just whether the loan payments were affordable on a strict pounds and pence calculation. Of course, the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the regulations define sustainable as being without undue difficulties and in particular the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

I carefully considered all of the arguments, evidence and information provided in this context and what this all means for Ms P's complaint.

Although the first loan was withdrawn shortly after Ms P had taken it, she did have to pay a withdrawal fee in relation to this loan. So I considered whether Loans2Go acted unfairly in providing the loan in the first place as it did cost Ms P to cancel the arrangement.

Loans2Go carried out some checks before it gave the first loan to Ms P which included asking for details of her income and expenditure and reviewing a credit report. Ms P has not been able to provide any further information about her financial circumstances at the time, such as her bank statements. However, in any event, I didn't think Loans2Go made a fair lending decision.

Loans2Go thinks its checks were reasonable and proportionate and that the first loan was affordable for Ms P. But the evidence that Loans2Go gathered at the time showed that Ms P had an active CCJ from 2016; she was over her credit limit and in arrears with a mail order account; she was close to the limit with previous payments in arrears on another credit account and she had at least one other short-term high cost loan open. Ms P also had other adverse information on her account including defaults and several payments in arrears. The lender might have considered this adverse information to be historic – but I thought Loans2Go would have been aware from the information that it had gathered that Ms P had a history of difficulties repaying credit and that she was still experiencing some problems repaying credit.

In addition, I thought the lender ought reasonably to have realised that, after meeting all her outgoings, existing credit, and new loan repayments to Loans2Go, Ms P would have only marginal disposable income available each month. Loans2Go added a 10% 'buffer' but nevertheless, I thought it ought reasonably to have realised that Ms P was at risk from experiencing further financial difficulties when it agreed to provide her with the first loan. Ms P was applying to Loans2Go for a costly loan, repayable over an extended 18-month period. I thought Loans2Go ought reasonably to have realised that taking everything into account, Ms P would most likely struggle to repay her loan on a sustainable basis. In these circumstances, I thought Loans2Go ought reasonably to have concluded it wasn't appropriate to provide the first loan to Ms P.

As previously explained, Ms P had to pay to withdraw from the first loan. She returned to borrow again a few months later.

I thought carefully about the summary of information that Loans2Go gathered at the time. On balance, I thought Loans2Go ought reasonably to have realised that Ms P would most likely struggle to repay her second loan sustainably over the full loan term. The credit report that Loans2Go had acquired showed that Ms P's financial position hadn't substantially improved.

She had payments in arrears on a loan that she'd taken only a few months earlier and yet

she was taking out another high cost loan. I thought the checks that Loans2Go carried out at the time ought to have suggested to the lender that this consumer was still having financial problems. Loans2Go has focussed on whether the second loan was affordable for Ms P on a pounds and pence basis, based on its analysis of her income and expenditure. But this was again an expensive loan, repayable over an extended period of time and there was evidence that she was already struggling to repay debt. As I explained, the lender was required to establish whether Ms P could *sustainably* make her loan repayments – not just whether the loan payments were technically affordable on a strict pounds and pence calculation.

I thought overall Loans2Go should reasonably have realised that Ms P was continuing to have difficulties managing her finances. And it seemed likely she would need to borrow elsewhere to repay her second loan from Loans2Go. In the circumstances I thought Loans2Go ought reasonably to have realised that it was unlikely that Ms P would've been able to sustainably repay her second loan over the full loan term. So it should reasonably have concluded that it was not appropriate to provide her with the second loan.

On balance, I didn't think Loans2Go should have provided Ms P with either loan. I hadn't seen anything which made me think that Loans2Go acted unfairly or unreasonably towards Ms P in some other way. But taking everything into account, I didn't think Loans2Go should have agreed to provide the loans to her.

I asked both parties to send me anything further they would like me to consider. I haven't seen new evidence from either Ms P or Loans2Go. The deadline for further comments has now passed.

### **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'd like to thank both parties for all the information that has been provided about this matter. Given that I've not received any further evidence or comment that changes my mind about this complaint, I confirm the conclusions I reached in my provisional decision.

I don't think Loans2Go ought reasonably to have provided Ms P with either loan, for the reasons I explained in my provisional decision. So Loans2Go needs to put things right.

### **Putting things right**

I think it is fair and reasonable for Ms P to repay the principal amount that she borrowed, because she had the benefit of that lending. But she paid interest and charges on loans that shouldn't have been provided to her.

I understand that Ms P's debt has been sold. Loans2Go should buy the debt back from the third party, if it's able to do so and then take the following steps. If Loans2Go isn't able to buy the debt back then it should liaise with the new debt owner to achieve the results outlined below.

Loans2Go should:

- Remove all interest, fees, and charges on the loans, including in relation to the loan that was withdrawn, and treat any payments Ms P made as payments towards the

capital.

- If reworking Ms P's loan account results in her having effectively made payments above the original capital borrowed, then Loans2Go should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled\*.
- If there is a shortfall in repayments which leaves a capital amount outstanding, then Loans2Go needs to treat Ms P sympathetically and fairly, which might include coming to a new arrangement about how best to repay this.
- Remove any adverse information recorded on Ms P's credit file in relation to the loans once any outstanding capital has been repaid.

\*HM Revenue & Customs requires Loans2Go to deduct tax from this interest. Loans2Go should give Ms P a certificate showing how much tax it's deducted if she asks for one.

### **My final decision**

For the reasons given above, I uphold Ms P's complaint and direct Loans 2 Go Limited to 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 7 May 2022.

Sharon Parr  
**Ombudsman**