

Complaint

Ms S has complained about a loan Loans 2 Go Limited (“L2G”) provided to her. She says the loan had a very high interest rate and she’s since also complained it was unaffordable.

Background

L2G provided Ms S with a loan for £1,000.00 in February 2020. This loan had an APR of 1,013.2% and 18-month term. This meant that the total amount of £4,114.08, including interest of £3,114.08, was due to be repaid in 18 monthly instalments of £228.56.

One of our adjudicators reviewed Ms S’ complaint and he thought L2G hadn’t done anything wrong or treated Ms S unfairly. So he didn’t think that Ms S’ complaint should be upheld. Ms S disagreed so the case was passed to an ombudsman.

My provisional decision of 27 May 2022

I issued a provisional decision – on 27 May 2022 - setting out why I intended to uphold Ms S’ complaint. I won’t copy that decision in full, but I will instead provide a summary of my findings.

I started by explaining that my experience of L2G’s loan agreements was that the amount of interest and the interest rate were clearly set out on it. And Ms S hadn’t disputed signing a loan agreement. So I thought that Ms S was more likely than not to have been made aware of the interest payable and the terms of her loan and so I wasn’t intending to uphold this part of Ms S’ complaint.

However, I then explained that Ms S had since complained about the affordability of her loan and I was satisfied that L2G had had sufficient opportunity to address this part of her complaint. So I proceeded to look at this matter.

I then went on to set out that we’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I used this approach to help me decide Ms S’ complaint.

I explained that L2G needed to make sure it didn’t lend irresponsibly. In practice, what this meant was that L2G needed to carry out proportionate checks to be able to understand whether Ms S could afford to repay any credit it provided. Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

I started this section of my provisional decision by explaining that L2G might argue that a light touch assessment was proportionate here. But I'm mindful that any credit check it is likely to have carried out was more likely than not to have shown that Ms S was already significantly indebted and that she had a history of taking out high cost credit.

So I was persuaded by what Ms S had said about her loan being unaffordable for her. And while it was possible her credit file reflected her choices rather than any financial difficulty, I added that my experience of these types of cases suggested that this was unlikely, I was satisfied that reasonable and proportionate checks would more like than not have shown that Ms S wouldn't have been able to repay this loan without experiencing undue difficulty or borrowing further.

All of this left me satisfied that reasonable and proportionate checks would more like than not have shown L2G that it shouldn't have provided this loan to Ms S. And as L2G provided Ms S with this loan, notwithstanding this, I was minded to conclude that it failed to act fairly and reasonably towards her.

Ms S was being expected to pay interest, fees and charges on a loan she shouldn't have been provided with in the first place. So I was intending to find that Ms S lost out because of what L2G did wrong and that it needed to put things right.

Responses to my provisional decision

Ms S confirmed receiving my provisional decision. She said that she agreed with it and confirmed that she had nothing further to provide ahead of my final decision.

L2G responded saying it wasn't attempting to withhold information from us and provided its full business file on the complaint.

My findings

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

In my provisional decision, I set out in some detail why I intended to uphold Ms S' complaint in part. And while L2G has now provided its business file it hasn't provided any further arguments for me to consider. Furthermore, having considered the information in L2G's business file, including the checks it carried out and the information it saw, I've not been persuaded to alter the conclusions I reached in my provisional decision regarding the affordability of this loan for Ms S.

So overall and having considered everything, I'm still partially upholding Ms S' complaint. And I remain satisfied that L2G needs to put things right.

Fair compensation – what L2G needs to do to put things right for Ms S

Having thought about everything, I think that L2G should put things right for Ms S by:

- removing all interest, fees and charges applied to the loan from the outset. The payments Ms S made, whether to L2G or any third-party debt purchaser, should be deducted from the new starting balance – the £1,000.00 originally lent. If Ms S has already repaid more than £1,000.00 then L2G should treat any extra as overpayments. And any overpayments should be refunded to Ms S;

- adding interest at 8% per year simple on any overpayments, if any, from the date they were made by Ms S to the date of settlement†
- if no outstanding balance remains after all adjustments have been made, all adverse information L2G recorded about this loan should be removed from Ms S' credit file.

† HM Revenue & Customs requires L2G to take off tax from this interest. L2G must give Ms S a certificate showing how much tax it has taken off if she asks for one.

I'd also remind L2G of its obligation to exercise forbearance and due consideration if it intends to collect on an outstanding balance, should one remain with it, after all adjustments have been made to the account and it's the case that Ms S is experiencing financial difficulty.

My final decision

For the reasons I've explained above and in my provisional decision of 27 May 2022, I'm partially upholding Ms S' complaint. Loans 2 Go Limited should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 12 July 2022.

Jeshen Narayanan
Ombudsman