DRN-4870663

The complaint

Mr G says Loans 2 Go Limited irresponsibly lent to him.

What happened

Mr G took out a loan for £800 over 18 months on 25 May 2023 from Loans 2 Go. The monthly repayments were £164.44 and the total repayable was £2,959.52. He says he took out the loan over three months but it somehow became an 18-month term making the total interest he owed excessive for the value of the loan. He feels he has been take advantage of.

Loans 2 Go says it carried out stringent checks before lending and interest was charged in accordance with the terms of the agreement. But as a gesture of goodwill it made a time-limited offer to reduce the interest on the active loan agreement by 50%. Mr G did not accept this and brought his complaint to this service.

Our investigator did not uphold Mr G's complaint. She said Loans 2 Go's checks were not proportionate but from better checks it could fairly have made the same lending decision. She explained Loans 2 Go was entitled to withdraw the goodwill offer it made in its final response letter, it had made clear there was a 14-day deadline to accept.

Mr G disagreed and asked for an ombudsman's review.

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 Mr G 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 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 Mr G. 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 Mr G. 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 Mr G. So to reach my conclusion I have considered the following questions:

- did Loans 2 Go complete reasonable and proportionate checks when assessing Mr G's loan application to satisfy itself that he 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 Mr G before it approved the loan. It asked for his monthly income. It verified his declared income using a third-party tool. It used national statistics to estimate his housing and living costs. It checked Mr G's credit file to understand his existing monthly credit commitments and credit history. From these checks combined Loans 2 Go concluded Mr G had income of £1,760, non-discretionary outgoings of £1,364.28 and a monthly disposable income of £394.55. So the loan would be affordable.

I think whilst these checks were initially reasonable given the term and value of the loan, based on the results of the credit check Loans 2 should have reviewed Mr G's actual income and expenditure. I say this as the credit check showed some recent early arrears, as well as some historic adverse information.

In cases like this we look at bank statements to understand what proportionate checks would have most likely shown the lender. And here I think it could have fairly made the same lending decision had it carried out better checks. I say this as the relevant statements across three accounts show Mr H's income was higher than it had used (£2,347.34 versus £1,760). And his fixed outgoings did not exceed Loans 2 Go's assumption. I note there was a high level of discretionary spend but a lender is not obliged to consider this. So in the round I think Loans 2 Go could fairly have made the same decision had it completed proportionate checks. It already knew from its credit check that Mr G was not over-indebted with total borrowings of just £1,812 and it could see that he was repaying his older defaulted accounts.

Mr G also argues it the term extension meant he had to pay an excessive amount of interest. But from the credit agreement he signed it was clear that he had committed to an 18-month term – not three months as he recalls. I can see Mr G is very unhappy with the amount of interest applied to his account. But the loan agreement clearly set out the cost of credit and the APR and Mr G had to actively engage in the application process for his loan, so I think it's likely that he was aware of what he was agreeing to pay. I haven't seen anything which makes me think that Loans 2 Go treated Mr G unfairly or breached industry practice regarding interest charges.

It follows I do not find Loans 2 Go irresponsibly lent to Mr G.

I’ve also considered whether the relationship might have been unfair under Section140A of the Consumer Credit Act 1974. However, for the reasons I’ve already given, I don’t think Loans 2 Go lent irresponsibly to Mr G or otherwise treated him unfairly in relation to this matter. I haven’t seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

And finally, I note Mr G is unhappy Loans 2 Go withdrew its goodwill offer. But in the circumstances of this complaint and given my findings I would not instruct it to re-introduce any such offer.

My final decision

I am not upholding Mr G’s complaint.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr G to accept or reject my decision before 12 August 2024.

Rebecca Connelley
Ombudsman