DRN-4998915

The complaint

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

What happened

Mr S took out an 18-month instalment loan for £1,500 from Loans 2 Go on 29 November 2019. The monthly repayments were £342.83 and the total repayable was £6,170.94. Mr S settled his loan early on 6 December 2019 repaying a total of £1,559.77.

Mr S says Loans 2 Go failed to complete proportionate checks before lending to him and it should have done more. He also complained about the high APR.

Our investigator did not recommend the complaint should be upheld. She said Loans 2 Go carried out appropriate checks and based on the results, it was not wrong to lend to Mr S.

Mr S disagreed with this assessment and asked for an ombudsman's review. He sent in his bank statements from the three months prior to his application, saying they show that if Loans 2 Go had completed better checks it would have known the loan would not be affordable.

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 S 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 S. 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 S.

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

- did Loans 2 Go complete reasonable and proportionate checks when assessing Mr S'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 S before it approved the loan. It asked for his monthly income and expenditure. It verified his declared income using both a third-party tool and by obtaining a copy of a payslip. It reviewed his declared expenditure to ensure it was reasonable based on national statistics and where necessary increased his declared expenses. It checked Mr S's credit file to understand his existing monthly credit commitments and credit history. From these checks combined Loans 2 Go concluded Mr S 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 the stage in the lending relationship. And I think Loans 2 Go made a fair lending decision based on the information it gathered. I'll explain why.

Mr M declared a net monthly income of £3,300 – the payslip Loans 2 Go obtained showed it was very close at £3,210. He declared total expenses (housing, living, existing credit) of £1,650. Loans 2 Go's checks showed these were most likely higher at £2,155 so it used that figure. That meant it understood he had monthly disposable income of £1,055 and so I find it was reasonable to conclude the loan would be sustainably affordable for Mr M. The credit check did not show any current or recent adverse data. I can see Mr M had defaulted on two accounts in 2014 but, given he had since settled both accounts and that was five years ago, I do not think that was a reason not to lend.

It follows I don't think Loans 2 Go was wrong give the loan to Mr S. To be clear, I am not saying I doubt Mr S's testimony. Rather, that it would not have been proportionate for Loans 2 Go to carry out the level of financial review needed to see he was under financial pressure given the value and term of the loan and the results of its initial checks.

Mr S is also unhappy with the interest rate on the loan. Whilst I agree it is high, the pre-contact credit information and the loan agreement clearly set out the cost of credit and the APR and Mr S 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 breached industry practice regarding interest charges.

Finally, 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 S 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.

My final decision

I am not upholding Mr S's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 1 October 2024.

Rebecca Connelley
Ombudsman