

Complaint

Mr M has complained about personal loans Loans 2 Go Limited (“L2G”) provided to him. He says the loans were unaffordable and so shouldn’t have been provided to him.

Background

L2G initially provided Mr M with a loan for £300 in April 2021. This loan had an APR of 700.1% and an 18-month term. This meant that the total amount to be repaid of £1,110.06, including interest, fees and charges of £810.06, was due to be repaid in 18 monthly instalments of £61.67. This loan was settled in full in May 2021.

Mr M was provided with a second loan for £600 in June 2022. This loan had an APR of 769.9% and a term of 18 months. This meant that the total amount to be repaid of £2,219.94, including interest, fees and charges of £1,619.94, was due to be repaid in 18 monthly instalments of £123.33.

One of our investigators reviewed Mr M’s complaint and he concluded that L2G didn’t do anything wrong when providing Mr M with his loans and so didn’t recommend that the complaint be upheld.

Mr M disagreed with the investigator’s assessment of his complaint and asked for an ombudsman’s decision.

My provisional decision of 7 December 2023

I issued a provisional decision – on 7 December 2023 - setting out why I intended to uphold Mr M’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 we’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And that I had used this approach to help me provisionally decide Mr M’s complaint.

L2G needed to make sure it didn’t lend irresponsibly. In practice, what this means is L2G needed to carry out proportionate checks to be able to understand whether Mr M 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 considered what L2G had done and its actions in light of this.

L2G said it agreed to Mr M's applications after he provided details of his monthly income and some information on his expenditure. It said it cross-checked this against information on a credit search it carried out and all of this information showed Mr M could afford to make the repayments he was committing to.

On the other hand, Mr M said he couldn't afford these loans and so shouldn't have been lent to.

Having reviewed the information provided, I was concerned that L2G's own checks in the lead up to loan 1 showed that Mr M had had difficulties repaying credit in the form of defaults a historic individual voluntary arrangement with a notice of correction, a county court judgment ("CCJ") and other adverse information; and after this at least one account having been in an arrangement to pay.

This was also in circumstances where the payments would have taken up a significant portion of the disposable income figure it had arrived at for Mr M too. I was also concerned that by the time of loan 2, Mr M's position hadn't improved much either. Another account had missed payments, a revolving credit account was towards the upper end of his credit limit and he had taken out further credit since loan 1 had been provided. I was also mindful that L2G had determined that Mr M's income was – albeit slightly – lower too.

Bearing in mind all of this, I was satisfied that L2G ought reasonably to have carried out further checks before providing either of these loans to Mr M.

I also thought that further checks would have extended into finding out more about Mr M's expenditure. And if L2G had done in this instance, I was persuaded that it would have seen that Mr M was already in a difficult financial position at the respective times and also found out why this was the case. I was also satisfied that reasonable and proportionate checks would more likely than not have shown L2G that Mr M's existing precarious financial position was because he was struggling financially.

So as reasonable and proportionate checks should have extended into finding out more about Mr M's income and expenditure, I was satisfied that they would more like than not have shown L2G that it shouldn't have provided these loans to Mr M.

As L2G provided Mr M with these loans notwithstanding this, this left me minded to conclude that it failed to act fairly and reasonably towards him.

Mr M ended up paying and was still being expected to pay interest, fees and charges on loans he shouldn't have been provided with in the first place. So it was my intention to issue a final decision finding that Mr M lost out because of what L2G did wrong when providing these loans and as a result that it needed to put things right.

Responses to my provisional decision

Mr M responded to confirm that he accepted my provisional decision and that he didn't have anything further for me to consider.

L2G disagreed with my provisional decision. It said that it considered Mr M was up to date with his payments at the time of these applications. Mr M had had previous difficulties with credit but they were historic. In its view, Mr M could repay these loans.

Finally, it said as a subprime lender it lends to people who had negative information on their credit file and may not have had a good credit score, as long as they can demonstrate stability and that they can repay their loan instalments sustainably.

My findings

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

I set out in some detail why I intended to uphold Mr M's complaint in my provisional decision of 7 December 2023. L2G has disputed my findings saying that Mr M's previous difficulties with credit were historic and that his credit file was on the whole positive.

I've considered what L2G has said. I accept that Mr M's CCJs and his IVA were historic. Nonetheless, the copy of the credit search provided does indicate that he had had more recent difficulties that hadn't gone as far as defaulted accounts, CCJs or IVAs. So I'd dispute that his credit file was on the whole positive.

In any event, I'm not suggesting that what was on Mr M's credit file in itself meant that L2G shouldn't have lent to him on either occasion. But I do think that what L2G saw coupled with the payments taking up a significant chunk of the disposable income which L2G had only estimated for Mr M meant that further checks, to demonstrate that Mr M could repay any further borrowing sustainably, were necessary here. This is especially as Mr M's position was worsening by the time of loan 2.

I simply don't agree that Mr M's credit file was in itself evidence of someone who was managing his finances well. And more importantly I certainly don't see how this meant that he would be able to repay borrowing sustainably, or that further checks weren't necessary given the overall circumstances here.

So while I've considered the further comments that L2G has made in response to my provisional decision of 7 December 2023, I've not been persuaded to alter my conclusions. I'm therefore still upholding Mr M's complaint. And I remain satisfied that L2G needs to put things right in the way that I had set out.

Fair compensation – what L2G needs to do to put things right for Mr M

Having thought about everything, I'm satisfied that it would be fair and reasonable in all the circumstances of this case for L2G to put things right for Mr M by:

- refunding all interest, fees and charges Mr M paid on loan 1;
- adding interest at 8% per year simple on any refunded payments from the date they were made by Mr M to the date of settlement†

- removing all interest, fees and charges applied to loan 2 from the outset. The payments Mr M made should be deducted from the new starting balance – the £600 originally lent. If Mr M has already repaid more than £600 then L2G should treat any extra as overpayments. And any overpayments should be refunded to Mr M. Should an outstanding balance remaining remain after all adjustments have been made, L2G can use the compensation due from loan 1 to reduce and/or clear whatever is left to pay on loan 2;
- adding interest at 8% per year simple on any overpayments, if any, from the date they were made by Mr M to the date of settlement†
- removing any and all adverse information it recorded about loan 1 from Mr M's credit file. If, after all adjustments have been made, no outstanding balance remains on loan 2, L2G should also remove any adverse information it has recorded about this loan.

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

My final decision

For the reasons I've explained, I'm upholding Mr M's complaint. I'm Loans 2 Go Limited should put things right in accordance with the direction I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 19 January 2024.

Jeshen Narayanan
Ombudsman