

## **Complaint**

Miss O has complained that Madison CF UK Limited (trading as “118 118 Money”) provided her with unaffordable loans.

## **Background**

118 118 Money provided Miss O with a total of three loans. Loan 1 was for £2,000 and taken in November 2016. It was due to be repaid in 24 monthly instalments of £156.58. Loan 1 was repaid in June 2018 using some of the proceeds from loan 2.

Loan 2 was for £2,649.23 and was repayable in 24 monthly instalments of £205.20. Miss O settled this loan early in October 2018. Miss O was finally provided with loan 3 in March 2019, which was for £1000 and due to be repaid in 12 monthly instalments of £115.04.

One of our investigators looked at this complaint and thought that 118 118 Money unfairly provided these loans as proportionate checks would have shown they were unaffordable. 118 118 Money disagreed with our investigator and asked for an ombudsman to review 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.

We've set out our general approach to complaints about unaffordable/irresponsible lending - including the key rules, guidance and good industry practice - on our website. And I've referred to this when deciding Miss O's complaint.

Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Miss O's complaint. These two questions are:

1. Did 118 118 Money complete reasonable and proportionate checks to satisfy itself that Miss O would be able to repay her loans in a sustainable way?
  - o If so, did it make a fair lending decision?
  - o If not, would those checks have shown that Miss O would've been able to do so?
2. Did 118 118 Money act unfairly or unreasonably in some other way?

*Did 118 118 Money complete reasonable and proportionate checks to satisfy itself that Miss O would be able to repay her loans in a sustainable way?*

118 118 Money provided these loans while it was authorised and regulated by the Financial Conduct Authority (“FCA”). The rules and regulations in place required 118 118 Money to carry out a reasonable and proportionate assessment of Miss O's ability to make the

repayments under these agreements. This assessment is sometimes referred to as an “affordability assessment” or “affordability check”.

The checks had to be “borrower” focused – so 118 118 Money had to think about whether repaying the loan would cause significant adverse consequences *for Miss O*. In practice this meant that 118 118 Money had to ensure that making the payments to the loan wouldn’t cause Miss O undue difficulty or adverse consequences.

In other words, it wasn’t enough for 118 118 Money to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Miss O. Checks also had to be “proportionate” to the specific circumstances of the loan application.

In general, what constitutes 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 / cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

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 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).

There may also be other factors which could influence how detailed a proportionate check should’ve been for a given loan application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances.

I’ve carefully thought about all of the relevant factors in this case.

*Were 118 118 Money’s checks reasonable and proportionate?*

118 118 Money says that it carried out an income and expenditure assessment with Miss O prior to providing her with these loans. It also carried out credit checks. Miss O declared that she was earning around £1,277.00 a month and had expenditure of £644 a month for loans 1 and 2. For loan 3, Miss O declared that she was earning around £1,636.00 a month and had expenditure of £644 a month.

I’ve carefully considered what 118 118 Money has said. But 118 118 Money’s credit checks clearly show that Miss O’s credit commitments alone made the expenditure arrived at implausible. Equally, 118 118 Money clearly wasn’t confident in the income and expenditure

information Miss O provided such that it adjusted the figures. Bearing all of this in mind, I think that 118 118 Money needed to take steps to verify Miss O's actual monthly expenditure.

As I can't see that this 118 118 Money did do this, I don't think that the checks it carried out before providing Miss O with her loans were reasonable and proportionate.

*Would reasonable and proportionate checks have indicated to 118 118 Money that Miss O would have been unable to repay these loans?*

As reasonable and proportionate checks weren't carried out before these loans were provided, I can't say for sure what they would've shown. So I need to decide whether it is more likely than not that a proportionate check would have told 118 118 Money that Miss O would have been unable to sustainably repay this loan.

118 118 Money was required to establish whether Miss O could make her loan repayments without experiencing significant adverse consequences – not just whether the loan payments were technically affordable on a strict pounds and pence calculation.

I've carefully considered the information provided. Having done so, it's clear that Miss O's income was pretty much being used to meet commitments to existing creditors. And she was using payday loans as well as her overdraft in an attempt to supplement her income and make ends meet.

I think the proportionate checks would have shown 118 118 Money that she was likely to use this loan in the same way which meant she was unlikely to be able to repay it without borrowing further or suffering significant adverse consequences.

Bearing all of this in mind, I'm satisfied that reasonable and proportionate checks would more likely than not have demonstrated that Miss O would not have been able to make the repayments to these loans without borrowing further and/or suffering undue difficulty. And, in these circumstances, I find that reasonable and proportionate checks would more likely than not have alerted 118 118 Money to the fact that Miss O was in no sort of position to make the payments on these loans without suffering significant adverse consequences.

*Did 118 118 Money act unfairly or unreasonably towards Miss O in some other way?*

I've carefully thought about everything provided. And having done so, I've not seen anything to suggest that 118 118 Money acted unfairly or unreasonably towards Miss O in some other way. So I don't think 118 118 Money acted unfairly or unreasonably towards Miss O in some other way.

*Did Miss O lose out as a result of 118 118 Money unfairly providing her with these loans?*

As Miss O paid a high amount of interest and charges on loans that she shouldn't have been provided with, I'm satisfied that she has lost out as a result of what 118 118 Money did wrong.

So I think that 118 118 Money needs to put things right.

**Fair compensation – what 118 118 Money needs to do to put things right for Miss O**

Having thought about everything, I think it would be fair and reasonable in all the circumstances of Miss O's complaint for 118 118 Money to put things right by:

- refund all interest, fees and charges Miss O paid on her loans;
- adding interest at 8% per year simple on any refunded amounts from the date they were paid by Miss O to the date of settlement†;
- removing any adverse information recorded on Miss O's credit file as a result of these loans.

† HM Revenue & Customs requires 118 118 Money to take off tax from this interest. 118 118 Money must give Miss O a certificate showing how much tax it has taken off if she asks for one.

### **My final decision**

For the reasons I've explained, I'm upholding Miss O's complaint. Madison CF UK Limited needs to put things right in the way set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss O to accept or reject my decision before 27 April 2021.

Jeshen Narayanan  
**Ombudsman**