

The complaint

Miss B complains that Madison CF UK Limited (trading as 118 118 Money) acted irresponsibly by granting her a loan that was unaffordable for her.

What happened

In October 2017, Miss B took out a loan with Madison for £2,000. It was to be paid back over 18 months in payments of £217.02 per month.

Miss B later complained that the loan was unaffordable for her. She said the interest was excessive and the original instalment amounts were too high.

Madison said it had asked Miss B a number of questions about her income and expenditure, personal circumstances and employment details when she applied for the loan. It also used reasonable 'average figures' for income and expenditure and information from Miss B's credit file. It said all the loan details (including the interest charge) were explained to Miss B and she was asked if the loan was affordable during the application process. Madison said it was satisfied it had acted correctly in approving Miss B's loan application.

Miss B remained unhappy, so she brought her complaint to our service. Our investigator looked into Miss B's concerns but didn't think her complaint should be upheld. She didn't think Madison had lent to Miss B irresponsibly. She thought Madison should have questioned the length of time Miss B had declared she was employed, as the application said 0 months. But after requesting further information from Miss B, our investigator was satisfied she was in receipt of a regular income. She acknowledged Madison hadn't requested bank statements from Miss B, but she didn't think reasonable and proportionate checks meant it needed to do so.

Miss B disagreed with our investigator's opinion. She thought our investigator should have considered information showing on her bank statements which included gambling and loans she had taken out. She said checks would also have shown she was not in a stable job. So, her complaint has been passed to me to decide.

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.

Having done so, I've decided not to uphold Miss B's complaint. I'll explain why.

The relevant rules, regulations and guidance required Madison to carry out reasonable and proportionate checks to ensure Miss B could afford to repay the loan in a sustainable manner.

The checks needed to be borrower-focused. It wasn't enough for Madison to think only about the likelihood of getting its money back. It also had to ensure that making the repayments wouldn't cause Miss B undue difficulty or have adverse consequences for her.

There isn't a set list of checks that lenders need to carry out, but they should be proportionate, taking a number of factors into consideration. These factors include the amount, type and cost of the credit as well as the personal circumstances of the consumer.

Madison gathered information from Miss B before it agreed the loan and also checked her credit file. On her application Miss B gave her monthly income as £1,250. She said she'd worked for her employer for 0 months and I think this should have prompted Madison to question this. But Miss B has told us she was working for this particular employer since May 2017, which was around five months before she took out the loan. In a telephone conversation that took place just before Miss B signed the loan agreement, she told Madison that she wasn't aware of any changes in the future that would make the monthly instalments unaffordable for her. So, I don't think Madison would have had reason to think that Miss B's employment wasn't stable, even if it had asked her further questions about the duration of her employment.

While Madison doesn't appear to have asked for wage slips to verify Miss B's income, I think it's reasonable for it to have relied on the information she gave it. And in any event, information from the bank statement Miss B has sent us suggests she was earning a similar amount to what she'd declared on the application.

The expenses (rent, council tax, utilities, food, card and loan payments and insurance) listed on Miss B's application added up to £675. This left her with a disposable income of £575. This information suggested the monthly repayments of £217.02 were affordable for Miss B.

The loan had a high interest rate of 169.9% APR, which meant Miss B was required to pay back considerably more than she borrowed over the 18 month term. The total amount to be repaid (over 18 months) was £3,906.36. So, I think it was reasonable that Madison would want to gather, and independently check further information about Miss B's circumstances before it agreed to lend to her. It did this by checking her credit file.

The credit file showed that Miss B had two loans and a credit card. It suggested Miss B's existing credit commitments were slightly higher than she'd stated on her application. But the repayments to Madison still appeared to be affordable, using the information on the credit file. Miss B had also indicated the purpose of her loan with Madison was for consolidating debt, so I think it's reasonable to have expected that the loan would have reduced her debt with other lenders. There was also nothing else on the credit file Madison reviewed that I think should have given it cause for concern. There were no recent defaults, missed payments or county court judgments, for example. Miss B has sent us a credit report from August 2017 which shows a default, but this doesn't appear on the credit file report Madison reviewed when it granted her the loan in October 2017.

I can see from the bank statements Miss B has sent us that she'd taken out some additional borrowing with other lenders, that didn't appear on her credit file. I can also see several gambling transactions. But Madison could only make its decision based on information it had available at the time. And I don't think proportionate checks would have extended to Madison asking Miss B to provide her bank statements.

Aside from neglecting to question Miss B's employment duration, I think Madison's checks were reasonable and proportionate in the circumstances. And they showed the loan was affordable.

Miss B is also unhappy about the interest charged on the loan. I appreciate the amount Miss B was asked to pay back is significantly higher than what she borrowed and making the payments has been difficult. But the credit agreement makes no attempt to disguise how costly the loan is. It clearly sets out the terms of the loan, including the total amount to be repaid. As Miss B accepted these terms and the payments appeared to be affordable, based

on the information it had at the time, I can't say Madison acted unfairly when it provided the loan.

I know my answer will be disappointing for Miss B. But I hope she'll understand the reasons for my decision and she'll at least feel her concerns have been listened to.

Although I'm not upholding Miss B's complaint, I'd like to remind Madison of its duty to treat her positively and sympathetically if she is still having difficulty repaying the loan.

My final decision

For the reasons I've explained, I don't uphold Miss B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss B to accept or reject my decision before 9 June 2021.

Anne Muscroft
Ombudsman