

The complaint

Miss H is unhappy that Madison CF UK Limited trading as 118 118 Money agreed to a loan she'd applied for as she said it was unaffordable for her.

What happened

In August 2019, Miss H took out a £2,000 loan with 118 118, to be repaid over 24 months with repayments of £119.97 a month.

Miss H said 118 118 shouldn't have approved the loan as it wasn't affordable when all of her circumstances were taken into consideration. She said she couldn't afford to repay the loan as she was already in a cycle of borrowing each month. She also said she'd tried gambling to help resolve her financial problems. Miss H complained to 118 118 as she didn't think they'd done enough to establish her true situation. Miss H said she couldn't afford the loan repayments, and 118 118 had acted irresponsibly in lending to her.

118 118 said they'd carried out reasonable and proportionate checks that showed the loan was affordable for Miss H. Miss H wasn't happy with their response and referred her complaint to us.

Our investigator said 118 118 had carried out a credit search and asked Miss H for details of her income and expenditure at the time of the application. But said 118 118 should have asked for further information to determine Miss H's financial circumstances as the information they'd looked at showed Miss H had recently increased her indebtedness.

Our investigator considered Miss H's bank statements for the three months leading up to the loan application. He said these showed Miss H had sufficient disposable income to afford the repayments. He didn't ask 118 118 to do anything differently.

Miss H didn't agree, she said she'd other commitments that weren't considered including her overdraft that was close to its limit of £2,000 each month. Miss H asked for an ombudsman to make a final decision.

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'm not upholding this complaint. I'll explain why.

Considering the relevant rules, guidance and good industry practice, I think the overarching questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are whether 118 118 carried out proportionate checks. And whether the loan made was affordable and sustainable for Miss H.

Regulations in place at the time 118 118 lent to Miss H required them to carry out a reasonable assessment of whether Miss H could afford to repay the loan in a sustainable

manner. This is sometimes referred to as an “affordability assessment” or “affordability check”.

The affordability checks should be “borrower-focused”, meaning 118 118 need to think about whether repaying the loan sustainably would cause difficulties or adverse consequences for Miss H. In other words, it wasn’t enough for 118 118 to think only about the likelihood that they would get their money back without considering the impact of repayment on Miss H herself.

Checks must also be proportionate taking into account the specific circumstances of the loan application. What constitutes a proportionate affordability check will generally depend on several factors such as the specific circumstances of the borrower, their financial history, current situation and whether there are any indications of vulnerability or financial difficulty.

Consideration should also be given to the amount, type and cost of credit they’re applying for. This could mean a proportionate check could differ for the same borrower for different loan applications.

So, I’ve considered whether 118 118 in lending to Miss H had been thorough in the checks they made. And whether they’ve taken all these factors into account in deciding to lend to her.

118 118 said Miss H’s credit checks didn’t show she was having any difficulty in repaying her existing financial commitments. 118 118 said the income and expenditure information provided suggested Miss H had a monthly income of around £1257. And that Miss H lived at home with her parents, paying £80 board each month. Her other outgoings each month totalled 944.25 which left Miss H with a disposable income of around £233. The application data for the loan showed it was to be used for consolidation of borrowing. If it was used in this way the expectation would be that the amount of disposable income Miss H had would increase. But even if it stayed at £233 considering the new loan repayment of £119.97, the loan still appeared to be affordable, as Miss H would have been left with around £113 in disposable income.

I’ve looked at the credit report and this showed that Miss H had a total debt balance of £10,961. She’d 13 active accounts and had four new accounts in the previous six months, including a loan, two further credit cards and a mobile telephone account. I can also see that Miss H, in June 2019 had taken cash advances from a credit card amounting to £270. On seeing this information, I would have expected 118 118 to want to obtain a thorough understanding of Miss H’s true financial position - to satisfy itself that she could sustainably meet her loan repayments over the loan term. I think that 118 118 ought reasonably to have realised that for its checks to be reasonable and proportionate, in the circumstances, it needed to look further into Miss H’s financial position – for example by asking to see her bank statements.

Miss H has provided us with copies of her bank statements for the three months leading up to her loan application so I can determine what further checks might have shown 118 118 at that time.

The bank statements I’ve seen are from mid-April 2019 to mid-August 2019. I’ve considered the transactions up to when the loan was agreed – 01 August 2019. I can see Miss H received an income of £1389.86 in May, £1345.43 in June and a total of £1656.03 in July, this equates to an average monthly income of £1463.77, higher than the income used by 118 118 in their affordability calculations. I can also see regular transfers into the account from another account held by Miss H.

The bank statements show Miss H had an overdraft facility of £2,000 and that throughout this period she was close to the limit and never running the account outside of the overdraft facility. But this is a student account and I can't see any charges were added to this account for the use of the overdraft.

Looking at Miss H's credit file I can see she'd credit commitments totalling £652. She also had three credit cards with a total credit limit of £3800, of which £2,940 had been utilised. A catalogue shopping account with a limit of £2950, of which at July 2019 the credit file shows a balance of £963. This would have increased Miss H's outgoings, based on a minimum payment of 5% by a further £147 for the credit cards and around £48 for the catalogue shopping account. Miss H said she was paying £80 board each month. This leaves a disposable income of around £537. In looking at Miss H's bank statements I can see she also had some regular transactions for motoring costs, food, clothing and social media. So, I've calculated Miss H's disposable income to be around £437, by allowing £100 for the incidental transactions. I appreciate that circumstances may change, and Miss H has struggled in maintaining her repayments on the loan, but I can't say 118 118 were unreasonable in saying she had the disposable income to repay the loan at the time she applied for it.

I've now considered whether 118 118 acted responsibly in lending to Miss H. I can see from the bank statements that Miss H did make several gambling transactions during this time, towards the end of April and in May 2019 her gambling transactions totalled, £325. Between end of May and June 2019, £548, end of June and July 2019, £120 and from the end of July and August 2019, after 118 118 agreed the loan I can see only one transaction for £20. While these transactions added to Miss H's financial difficulty, I can also see Miss H was prevented by exceeding her overdraft limit by the transfer of funds from another account she had. And from Miss H's credit file, I can see her other current account wasn't in an overdraft, during these times. Miss H has said she only tried gambling to try to help her financial situation, and that she has since stopped. And I think this is what 118 118 would have seen if they'd asked for Miss H's bank statements.

Miss H has also referred to a loan where she was the guarantor and had to make monthly payments of £195 as the borrower had defaulted. But there isn't any record of this on Miss H's credit file at the time the 118 118 loan was agreed. Neither can I see any repayments of this amount being taken from the bank statements I've seen.

I've not seen anything to show that Miss H wasn't able to keep up repayments for her existing debt. And 118 118's records show the loan was for consolidation of Miss H's debt, which would have increased Miss H's disposable income. So, I don't think 118 118 would have an indication that Miss H couldn't maintain her existing commitments.

I know my decision will be disappointing for Miss H. But from what I've seen I can't say 118 118 acted irresponsibly in lending to her. And I'm pleased that she is now in a much better financial situation.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 21 September 2021.

Anne Scarr
Ombudsman