

The complaint

Mrs M complains that Madison CF UK Ltd trading as 118 118 Money (118 118) provided lending to her which was unaffordable and irresponsible. She says that she was struggling to make the repayments.

What happened

Mrs M borrowed £2000 from 118118 money in May 2019. The interest was added to the account straightaway and the total amount to be repaid was £4838.88 at £201.62 per month for 24 months.

Mrs M maintained the repayments until around December 2019 when a first payment failed and was then paid late. Further repayments made were sporadic, and in April 2020 Mrs M was furloughed due to the pandemic and her employer having to close.

In May 2020 Mrs M requested a payment holiday from 118 118. She didn't receive a reply to this.

Mrs M made reduced payments of £100 per month in July, August and September 2020. She had paid £2400 of the loan back when the debt was then sold to a debt collection agency.

Mrs M complained about the debt having been sold when she was making payments, and that the lending was unaffordable.

118 118 issued their final response on 8 January 2021. They didn't uphold Mrs M's complaint about the lending decision. They said that when the loan application was completed, they asked extensive questions about income and expenditure, and used industry standard verification checks to validate the information. They did feel that they could have done more to help Mrs M when she made her request for a payment holiday, and as a gesture of goodwill, they offered her £100.

Our investigator didn't uphold Mrs M's complaint. He thought that the checks that 118 118 undertook to assess creditworthiness and affordability were fair and proportionate.

Mrs M has asked for an ombudsman's decision as she thinks 118 118 shouldn't have lent to her and this has come to me to review.

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.

Unaffordable and irresponsible lending complaint

This was a high interest loan and in cases like this, I have to look at what checks the bank carried out when it made the decision to approve the lending and consider whether those checks were proportionate and in accordance with the Consumer Credit sourcebook (CONC) 5.2. This involves looking at what information was available to the lender at the time, and whether based on that information, they should have done further checks to help them understand if the lending was sustainable.

118 118 have said that they looked at Mrs M's income and expenditure, and also at her credit file to establish if the lending was affordable.

They have sent us copies of the information provided in the online application in which Mrs M declared her income was £2151 and outgoings were £979.09 leaving an excess income of £1171.91.

The credit file they used showed that Mrs M had opened four new accounts in the six months before the loan application and had 11 accounts open altogether in a mix of credit cards, loans and home shopping accounts. One of the loans was for £5500 taken out on 16 April 2019, just prior to this application and the total of credit card and home shopping debt at the date of application was another £3297. There were also some defaults showing on a telecommunications account and she was up to her limit on a mail order account.

I think that such a steep increase in borrowing in the six months up to the loan should have alerted 118 118 to a possible concern about affordability and sustainability and the need to consider undertaking additional checks. They could have asked for bank statements and wage slips to look at income and expenditure in more detail as part of assessing affordability, but they didn't do so. I think they should have done more here.

I have had the benefit of seeing Mrs M's bank statements and so I have considered whether if 118 118 had seen them, would this have affected their decision to lend to Mrs M.

In the statements for March and April 2019, just prior to the loan application, I can see a monthly net wage of £1595.36 going into the account. This is lower than the declared £2151 which is calculated on 118 118's affordability report as £1720 net and so I have used this figure.

Mrs M lives at home with her parents and pays them board which is £90 per month according to her application, and she has several credit card and home shopping debts which she pays. She has declared this as totalling £515 per month and other expenses as £374.09 per month. This totals £979.09 and would leave income of £616.27 which would be enough to pay the loan repayments of £201.26 and still have income over.

I can also see that the statements show that Mrs M is usually in credit in her account and that she is meeting her card commitments each month. I don't think that if 118 118 had seen Mrs M's bank statements they would have made a different lending decision, as the loan repayments looked affordable at the time the decision was made.

I can understand that following the pandemic and Mrs M being furloughed that meeting payments must have become more difficult. However, at the time the loan was approved, it appears to be affordable, and so I don't find that 118 118 have done anything wrong here.

Sale of the debt

Mrs M is also unhappy that 118 118 sold the debt to a debt collection company when she was making reduced payments under an agreement. 118 118 are allowed to sell the debt on so I can't say they have done anything wrong here. Mrs M will need to raise any concerns with the debt collection company from now on regarding the recovery of the debt.

I can see that Mrs M made several requests for a payment holiday at the start of the Covid pandemic, when her employer furloughed her. It doesn't seem that these were picked up by 118 118 as they should have been, and they didn't update her new payment details when she asked them to. 118 118 have offered Mrs M £100 compensation in respect of these failings and I consider that this is fair. Even if the payment holiday request had been picked up, there is no guarantee that it would have been granted, as it was only shortly before the debt was sold.

My final decision

Madison CF UK Ltd trading as 118 118 Money has already made an offer of pay £100 to settle the complaint and I think this offer is fair in all the circumstances.

So my decision is that Madison CF UK Ltd trading as 118 118 Money should pay £100.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 3 September 2021.

Joanne Ward
Ombudsman