

The complaint

Mr B says Madison CF Limited (trading as 118 118 Money) irresponsibly lent to him.

What happened

This complaint is about a two fixed term loans taken out by Mr B in 2016 with 118 118 Money. The details of these loans are:

Loan	Amount	Date	Months	Repayment
1	£1650	09/09/2016	24	£120.19
2	£2000	03/12/2016	24	£160.32

Our investigator upheld Mr B's complaint and thought 118 118 Money shouldn't have provided both loans. He concluded that 118 118 Money didn't make a fair lending decision based on the information it had in front of it on either occasion.

118 118 Money agreed to compensate Mr B for providing loan 2. But disagreed with the investigator's findings about loan 1. It says Mr B told it he had an additional source of income and so it felt the loan was affordable for him. So as both parties are not in agreement, Mr B's complaint has been passed to me.

Both parties are not in dispute about loan 2 and 118 118 Money has agreed to put things right. So as this is the case and the complaint was passed to me.

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.

We've set out our general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website.

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 Mr B's complaint. These two questions are:

1. Did 118 118 Money complete reasonable and proportionate checks to satisfy itself that Mr B would be able to repay loans in a sustainable way and without experiencing significant adverse consequences?
 - If so, did it make a fair lending decision?
 - If not, would those checks have shown that 118 118 Money would've been able to do so?
2. Did 118 118 Money act unfairly or unreasonably in some other way?

The rules and regulations in place required 118 118 Money to carry out a reasonable and proportionate assessment of Mr B ability to make the repayments under this agreement. 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 be sustainable and cause significant adverse consequences *for Mr B*. In practice this meant that business had to ensure that making the payments to the loan wouldn’t cause Mr B undue difficulty or significant 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 Mr B. 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 consumer’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 *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).

I’ve carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr B’s complaint.

Loan 2

Both parties are not in dispute about loan 2 and 118 118 Money has agreed to put things right. So as this is the case, I will not make any detailed findings about this loan, other than to say I have looked through the documents submitted, and I agree with the investigator’s findings. I also think loan 2 should be upheld and think 118 118 Money didn’t make a fair lending decision based on what was given on the credit report that it would have had in front of it. So I will be including loan 2 later on in my decision and will be asking 118 118 Money to put things right, as it has already said it would.

I will now go on and concentrate my findings on loan 1. This is the loan that both parties are still in dispute about.

Did 118 118 Money complete reasonable and proportionate checks to satisfy itself that Mr B would be able to repay Loan 1 in a sustainable way?

118 118 Money has provided evidence to show that before lending to Mr B it asked him for information about his income and expenditure. It also carried out a credit check and says it obtained bank statements, albeit it now no longer has these. Based on those checks 118 118 Money thought it was fair to lend.

Mr B was entering into a significant commitment with 118 118 Money. He was agreeing to make monthly repayments for a period of 2 years. So, I think it is right that 118 118 Money wanted to gather, and independently check, some detailed information about Mr B's financial circumstances before it agreed to lend to him. I think that the checks it did were sufficient to achieve that aim. I think 118 118 Money's checks were proportionate.

Did 118 118 Money make a fair lending decision with regards to loan 1?

I have concluded 118 118 Money made proportionate checks. But simply performing proportionate checks isn't always enough. A lender also needs to react appropriately to the information those checks show. Those results might sometimes lead a lender to undertake further enquiries into a consumer's financial situation. Or, in some cases, the results might lead a lender to decline a loan application outright. This is what I think 118 118 Money should have done with loan 1.

118 118 Money obtained a credit report when it was assessing whether loan 1 was affordable for Mr B. There are several open short-term credit and pay day loans on this report. I agree with our investigator when he concluded this loan was unsustainable for Mr B. I can also see the significant repayments that he would have to make, that is shown on the credit report. Mr B was committed to repayments that would have taken up nearly all of his monthly income. I can't see that 118 118 Money would reasonably consider that Mr B would be able to repay this loan without having to borrow more credit first. Mr B was, stated on this credit report, borrowing from multiple short-term finance providers. He was lending and repaying from these companies on a regular basis during a short space of time and I think there is enough here that 118 118 Money had in front of it, for me to draw a conclusion that Mr B was in a cycle of debt and was borrowing in order to repay what he owed. I think the credit report shows that Mr B was having problems managing his finances at that time and on seeing this 118 118 Money shouldn't have made a decision to lend to him.

118 118 Money has recently told our service that Mr B told it he had another source of income. It has shown a screen print where it documented this. It also says that it obtained bank statements from Mr B at the time, as he had only been in his job for a short while. But it hasn't retained these and hasn't been able to submit these to our service. I acknowledge what 118 118 Money has said about what it says Mr B told it at the time. But I can't see that it went on and used this within its affordability assessment. The documents it has submitted has instead showed that it used Mr B's monthly income figure declared by him. I haven't seen any more from 118 118 Money other than the screen shot of a conversation it had with Mr B about bank statements and an additional income, not that it reacted to any of the information that this may have provided. So, in conclusion I don't think 118 118 Money reacted appropriately to the information it had in front of it. The sheer number of short term loans that he took out leading up to him asking for a loan with it, ought to have given 118 118 Money serious concerns about Mr B's finances and his ability to repay this loan in a sustainable way.

In conclusion, I don't think, based on what 118 118 Money had in front of it, that it should have given Mr B this loan.

118 118 Money needs to put things right.

Putting things right – what 118 118 Money needs to do

- refund all interest and charges Mr B paid on loans 1 and 2;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;
- remove any negative information about loans 1 and 2 from Mr B's credit file;

† HM Revenue & Customs requires 118 118 Money to take off tax from this interest. 118 118 Money must give Mr B a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons given above, I'm upholding Mr B's complaint. Madison CF Limited should put things right for Mr B as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 30 June 2022.

Mark Richardson
Ombudsman