

## The complaint

Miss C has complained about loans given to her by Madison CF UK Limited trading as 118 118 Money. She's complained using a claims management company (CMC) but for ease I'll refer mainly to Miss C.

## What happened

Miss C has applied for and received several loans from 118 Money as shown below. She says that 118 Money didn't carry out sufficient checks on her applications. If it had, she says it ought to have refused to lend to her as the loans were unaffordable.

	Date	Amount	Term	Monthly repayment	Amount received
<b>Loan 1</b>	30/11/15	£3,450	24 months	£274.49	£3,450
<b>Loan 2</b>	16/01/17	£2,000	24 months	£153.85	£2,000
<b>Loan 3</b>	04/09/17	£2,323	24 months	£183.01	£750
<b>Loan 4</b>	17/03/18	£2,787	24 months	£216.56	£750
<b>Loan 5</b>	15/12/18	£3,056	24 months	£238.77	£900

118 Money looked into her complaint and rejected it. It said it had followed its usual underwriting process using "*industry standard verification checks*". It was satisfied that the loans were affordable for Miss C at the time.

Miss C was unhappy with 118 Money's response, so she referred her complaint to our service. One of our investigators looked into it. She felt on balance, that 118 Money had reached a fair decision to lend Loans 1-3, but that it shouldn't have agreed to Loans 4 and 5. She asked 118 Money to put matters right.

Miss C accepted what our investigator said, but 118 Money didn't. It agreed with her comments regarding Loans 1-3, but maintained it was fair for it to lend Loans 4 and 5 too. 118 Money said there was no evidence that Miss C was "*credit hungry*" as her balance to limit ratio on her existing credit remained steady between Loans 3 and 5.

As there was no agreement, the complaint has been passed to me for 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.

As there's now no dispute between the parties regarding Loans 1-3, I'll not comment further on the decision to agree those loans and will focus solely on the lending decisions for Loans 4 and 5. It is important to acknowledge the earlier loans however, as they have a bearing on my decision on the later ones.

We've set out our approach to complaints about unaffordable lending on our website – including the key relevant rules, guidance, good industry practice and law. I've considered

this approach when deciding this complaint.

118 Money needed to carry out reasonable and proportionate checks to ensure that it didn't lend to Miss C irresponsibly. It's not about 118 Money assessing the likelihood of it being repaid, but it had to consider the impact of the loan repayments on her. There is no set list of checks it had to do, but it could take into account several different things such as the amount and length of the loan, the amount of the monthly repayments and Miss C's overall circumstances.

Taking all that into account, I think a reasonable and proportionate check ought generally to have been more thorough where:

- a customer has a low income (because it may make it more difficult to make loan payments of a set amount from a low level of income);
- the higher the amount due to be repaid (because it may be more difficult to meet a higher repayment for a particular level of income);
- the longer the term of the loan (because the total cost of the credit is likely to be higher, and the customer is obliged to make payments for a longer 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 (because the risk of repeated refinancing may signal that the borrowing has become or was becoming unsustainable).

118 Money had agreed three loans for Miss C between November 2015 and September 2017 as can be seen above. Loan 1 was repaid in full on 30 March 2016. Loan 2 was for £2,000 and was drawn in January 2017 to be repaid over two years. In September 2017, Miss C applied for an extra £750 – Loan 3. Despite making repayments, the amount she borrowed increased to £2,323 over two years. So she increased her indebtedness both in terms of the amount borrowed and the term over which the debt would last. The repayment increased by £30 a month too.

Just six months later, Miss C applied for Loan 4 to release a further £750 and repay Loan 3. Again, the loan was to run two years and repayments were increasing a little over £30. While she'd made repayments to Loan 3 the balance hadn't reduced significantly, so the effect of this new loan was to increase her overall indebtedness in amount and term as she had earlier.

I think this ought to have led to 118 Money seeking to get a fuller understanding of Miss C's financial situation. It seems she'd not proven an ability to sustainably repay the money she'd already borrowed up to that point. I say this because she'd borrowed £2,000 just over a year earlier and owed more than that due to a top up, despite making the required repayments. Effectively, she'd borrowed back in a top up, a proportion of what she'd repaid without making inroads into the outstanding debt.

I've already mentioned that 118 Money had a duty to ensure Miss C could afford to repay the loan sustainably - that is, she should be able to repay the credit without undue difficulty, while being able to meet other commitments and without having to borrow further. I don't think Miss C's track record with 118 Money has demonstrated an ability to sustainably repay what she's borrowed.

If 118 Money had sought to gain a better understanding of Miss C's finances, it might have done so by asking to see some bank statements. If it had, it would have seen that in February 2018, Miss C received £1,146 from her employer, and in March 2018 she received £902. The statements reveal a monthly debit which appears to be to a family member for

£300 with the reference “loan”, as well as payments to other creditors, and payments to a previous employer for “overpaid salary”.

In its assessment notes, 118 Money says it believed Miss C earned less than she’d quoted on her application and based its assessment on her earning £1,304.35 each month. It calculated her expenditure as £1,008 per month so believed she had £295 disposable income from which to meet the required £183 repayment. But as I’ve said, Miss C’s bank statements show the income figure 118 Money had arrived at was significantly more than Miss C had received in the preceding two months alone. Based on the income received to her account, I don’t think the loan was affordable for Miss C.

For the reasons I’ve set out, I think 118 Money ought to have refused to lend Loan 4 to Miss C as there was sufficient evidence that it was unlikely to be sustainable for her.

By loan 5, 118 Money said it believed Miss C’s income to be £1,500 per month and her expenditure £1,031, leaving a disposable income of £468 from which to pay the instalment of £239. The bank statements she’s provided for the three months prior to the application for Loan 5, don’t show her income. They do show a total of £2,100 coming in from another credit provider with references of “furniture” and “Christmas”. But the debits for those months don’t show expenditure of that nature, simply repayments to other creditors such as credit cards and 118 Money. The statements also show a direct debit for £40 to another finance agreement being reversed after it took her account overdrawn.

Again, there’s a trend here of Miss C making a few payments to a loan and then seeking to borrow more as, it seems, her finances become tight again. 118 Money has referred to Miss C not being “credit hungry”. But for the reasons I’ve set out I think it seems she sought to borrow further funds every few months extending her indebtedness in terms of money and time, without ever making inroads into the amount borrowed. Her loan with 118 Money in January 2017 was £2,000, but by the time this was due to have been repaid, she owed in excess of £3,000 and still had two years to run despite making the required payments.

For the reasons I’ve set out, I think 118 Money ought to have refused to lend Loan 5 to Miss C as there was sufficient evidence that it was unlikely to be sustainable for her. I say this because it seems she was repeatedly refinancing the loan over the same period of time.

### **Putting things right**

When I find that a business has done something wrong, I’d normally direct that business to put the complainant in the position they would be in now if the mistake it made hadn’t happened, as far as is reasonably practical. In this case, that would mean putting Miss C in the position she would be in now if she hadn’t been given Loans 4 and 5. But Miss C was given the loans and used the money so it’s fair that she should repay what she borrowed.

So, I think 118 Money should:

- Calculate the total amount Miss C received from 118 Money under Loans 4 and 5 and deduct from that figure the repayments she’s made to each.
  - If this results in Miss C having repaid more than she received, any overpayments should be refunded to her. Interest at a rate of 8% simple per year should be added to any overpayments from the date they were made until the date of settlement\*.
  - If the calculation means there’s still a balance for Miss C to pay, 118 Money should let her know how much is outstanding and reach a suitable, affordable payment plan with her. I remind 118 Money of its obligation to treat customers

fairly.

- Remove any negative information recorded on Miss C's credit file regarding Loans 4 and 5.

\* If 118 Money considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Miss C how much it's taken off. It should also give Miss C a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.

### **My final decision**

My final decision is that I uphold this complaint. Madison CF UK Limited trading as 118 118 Money should put matters right as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 27 May 2022.

Richard Hale

**Ombudsman**