

The complaint

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

What happened

Mr G took out a 12-month instalment loan for £1,500 on 8 March 2014 from 118 118 Money. The monthly repayment was £176.53 and the total repayable was £2,118.36. He says he should never have been given the loan as it was unaffordable and contributed to financial problems he is still trying to resolve.

Our investigator said the complaint should be upheld. She said the information the lender gathered should have prompted it to do further checks, and these would have shown the loan was most likely not sustainably affordable for Mr G.

118 118 Money disagreed and asked for an ombudsman's 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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

The Office of Fair Trading (OFT) was the regulator when Mr G borrowed from 118 118 Money. The relevant rules and guidance set out by the OFT in its Irresponsible Lending Guidance (ILG) said that the lender needed to check that Mr G could afford to meet his repayments in a sustainable manner. This meant Mr G being able to meet his repayments out of his normal income without having to go without or borrow further.

Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up 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 and cost of credit they have applied for.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the lower a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the longer the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether 118 118 Money did what it needed to before agreeing to lend to Mr G. So to reach my conclusion I have considered the following questions:

- did 118 118 Money complete reasonable and proportionate checks when assessing Mr G's loan application to satisfy itself that he would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did 118 118 Money make a fair lending decision?
- did 118 118 Money act unfairly or unreasonably in some other way?

I can see 118 118 Money asked for some information from Mr G before it approved the loan. It asked for his monthly income and expenditure. It amended his declared expenses using instead an assumption of 25% of income. It checked Mr G's credit file to understand his existing monthly credit commitments and credit history. It asked about the purpose of the loan, which was home improvements. From these checks combined 118 118 Money concluded Mr G would have sufficient disposable income each month (£509.87 after including this repayment) to afford the loan.

Given the term, value of the loan and the stage in the lending relationship I think these checks were initially proportionate. However, like the investigator, I don't think the lender reacted appropriately to the information it gathered and I think further checks were needed. I'll explain why.

From the credit check 118 118 Money carried out it knew that, whilst Mr G wasn't heavily indebted or in arrears on his active credit accounts, he had taken out 15 payday loans in the last 24 months. He had also taken out £849 of cash on credit cards in the previous 12 months. So I think there were some signs that Mr G was potentially having problems managing his money and this should have been investigated further.

In response to the investigator's assessment 118 118 Money argued that as Mr G had not used payday loans in the months leading up to its loan, it would be unfair to hold this against him when it was clear he was no longer using short-term high-cost credit. But I disagree with this analysis. In the six months prior to his application Mr G had taken out and repaid five payday loans, on three occasions taking out a new loan within a day or two of repaying a previous loan. Based on this pattern of borrowing I think 118 118 Money ought to have carried out further checks before concluding Mr G's financial pressures had ended and deciding to lend.

However its failure to do so doesn't in itself mean Mr G's complaint should succeed. I need to look at what proportionate checks would have shown 118 118 Money and consider if it ought to have realised that Mr G most likely couldn't sustainably afford the repayments.

Like the investigator, I have looked at Mr G's bank statements in the three months prior to his application. I'm not saying the lender had to do this but it's one way it could have gathered the information I think it needed on Mr G's financial situation. The lender asked if we had reviewed both of Mr G's current accounts as its credit check showed he had two accounts. We only have copies of statements from one account, but it seems it was Mr G's main account as his salary was paid into it and his rent and living expenses came out of it. Mr G made regular transfers to and from his second account. But, on balance, I'm satisfied

it's fair to rely on the statements we have to understand what better checks would most likely have shown 118 118 Money.

The statements show Mr G was reliant on his £1,500 overdraft, even remaining overdrawn on receipt of his salary. So had 118 118 Money carried out proportionate checks I don't think, as a responsible lender, it could have concluded Mr G had the disposable income it calculated and would be able to repay this loan without borrowing further or suffering other adverse financial consequences. Taking into account that the credit check showed that Mr G was also using 90% of his combined credit card limits and had a relatively recent reliance on payday loans, I think 118 118 Money ought to have concluded the loan was most likely to not be sustainably affordable for Mr G.

It follows I think 118 118 Money was wrong to give Mr G the loan.

I haven't found any evidence that 118 118 Money acted unfairly or unreasonably towards Mr G in any other way.

Putting things right

I think it's fair and reasonable for Mr G to repay the capital that he borrowed because he had the benefit of that money. But he has paid interest and charges on a loan that shouldn't have been provided to him.

It should:

- Remove all interest, fees and charges from the loan and treat all the payments Mr G made as payments towards the capital.
- If reworking Mr G's loan account results in him having effectively made payments above the original capital borrowed, then 118 118 Money should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- Remove any adverse information recorded on Mr G's credit file in relation to the loan.

*HM Revenue & Customs requires 118 118 Money to deduct tax from this interest. 118 118 Money should give Mr G a certificate showing how much tax it's deducted, if he asks for one.

My final decision

I am upholding Mr G's complaint and Madison CF UK Limited (trading as 118 118 Money) must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 4 November 2021.

Rebecca Connelley
Ombudsman