

## The complaint

Ms A complains that Madison CF UK Limited trading as 118 118 Money lent her money on two loans which she was unable to afford to repay.

## What happened

Ms A was provided with the following loans by 118 118 Money:

	Date	Amount	Term	Monthly Instalment	Repaid
Loan one	15/12/2017	£2,500	24 Months	£139	By loan two
Loan two	1/5/2019	£3,301	24 Months	£183	3/6/2019

Ms A says she took out loan one when she was in a really bad financial state, and required some money. She was overdrawn at the time of taking the loan and had been for 30 days in a month and was getting herself into a bigger mess with other lenders, in order to make the extra payment. So she topped up the loan, increasing her payments to £183. She says this was pre-approved for her, without any affordability checks. Both these loans were given to her at a click of a button online. She closed this loan as she just could not handle it, and with some help took out a large loan to consolidate all her debt.

118 118 Money said that at the time of applying for the first loan, Ms A was taken through extensive questions to ascertain her circumstances. It uses industry standard verification checks to validate the information provided on the applications. For additional borrowing applications (where there is an internal settlement) the customer will be presented with the information they supplied on the previous application and will be asked to update/edit anything that may have changed. It believed the loan was affordable in both cases. Ms A met the payments for the first loan and settled the second loan early.

118 118 Money has supplied documentation from its business file, including the credit report for both loans.

Our investigator said that, in respect of loan one, 118 118 Money had made a fair lending decision. In respect of loan two she said that reasonable and proportionate checks were likely to have demonstrated that Ms A would not have been able to make the repayments sustainably. So she said that 118 118 Money should refund all interest and other charges on the loan.

118 118 Money didn't agree. it pointed out that the payments for loan two were only increased from loan one by (around) £44, and considering Ms A had paid back that loan perfectly and had no other adverse credit it seems unreasonable to suggest it was 118 118 Money that tipped her from being in a sustainable position to suddenly being unsustainable.

The matter has been passed to me for further consideration.

### **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 the relevant rules, guidance, and good industry practice - on our website.

Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- Did 118 118 Money complete reasonable and proportionate checks to satisfy itself that Ms A would be able to repay the loans in a sustainable way?
- If not, would those checks have shown that Ms A would have been able to do so?

The rules and regulations in place required 118 118 Money to carry out a reasonable and proportionate assessment of Ms A's ability to make the repayments under the agreements. 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 loans would be sustainable. In practice this meant that 118 118 Money had to ensure that making the repayments on the loans wouldn't cause Ms A undue difficulty or significant adverse consequences. That means she should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment she had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on her financial situation.

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 Ms A. 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. I think that such a 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 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).

*loan one*

In respect of this loan, Ms A's income was assessed to be around £2,400 a month. She also had child tax credits of around £25 a week. Looking at the credit report, it appears that she had three credit cards with total balances of around £3,600. She also had mail order accounts with balances of around £760. If, as Ms A says, this loan was for debt consolidation, 118 118 Money really should have ensured the relevant debts were paid off e.g. by paying them out of the loan monies before releasing the balance to Ms A.

However even with making reasonable payments on the credit cards etc, with the new loan instalment her credit commitments still would have been around 12% of her income. And with her assessed expenses, it still appears that she would have had a disposable income of about £600 a month, without paying the cards/mail order account off.

I have reviewed Ms A's bank statements, which 118 118 Money didn't request. However although they showed she had an overdraft which had increased in recent months, I've not seen anything in those statements which raised concerns e.g. other high interest loans. On the face of it Ms A should have been able to use the loan to repay some of her accounts or part of the overdraft. If there were any other matters affecting her finances at the time, it wasn't evident from the checks 118 118 Money did, which I think were reasonable and proportionate. I think it made a fair lending decision in respect of this loan.

#### *loan two*

I do think Ms A's circumstances had changed at the time of this loan. I note first of all that Ms A had received a number of text messages in the few months before this loan was applied for, encouraging her to take out a new loan, saying she had been "pre-approved". The amount on offer increased over the period of these texts.

I think that that for this second loan 118 118 Money should have carried out a more thorough check. Ms A was looking to borrow more money within eighteen months of the first loan, which might have been an indicator that the loan was becoming unsustainable or of financial difficulties. However the check for this loan was more basic than before. And I can't see that it was in Ms A's interests, as she had been paying the instalments for loan one on time, to roll that loan into a new loan, with only six months outstanding.

Nevertheless it's reasonable to look at the affordability of this loan as opposed to that for loan one. From the credit report, I've noted she now had a mortgage (on a joint account). And that she didn't appear to have paid off any of her credit cards or mail order accounts. In fact she had two new credit cards. Of these, four were near to their limit (within £100 for three and within £200 for the fourth one). Her overall balances on credit cards had increased to around £9,170. This meant that her credit commitments had more than doubled since taking out loan one. And the report would have shown that she hadn't managed to repay her overdraft which was still at the same level as at the time of her application for loan one.

On a purely pounds and pence calculation Ms A would have had a disposable income of about £290. But I think the evidence from the credit report and what it revealed about Ms A's circumstances since loan one showed that she was struggling to meet her commitments. And I don't think that the balance of the loan which might have enabled her to pay off the mail order account or two smaller credit card balances would really have helped. So I don't think that 118 118 Money made a fair lending decision in respect of this loan.

#### **Putting things right**

Ms A has had the capital from the loan and it's fair that it should have been repaid to 118 118 Money. With regard to the redress in respect of loan two, 118 118 Money should refund any interest and charges applied to the loan. I should warn Ms A that as she paid off

this loan off within a month and received a rebate of interest, the amount repaid would only be in respect of any interest and charges for that month. 118 118 Money should:

- Remove all interest, fees and charges applied to loan two.
- Treat any payments made by Ms A as payments towards the capital amount of £3,301.
- If Ms A has paid more than the capital, refund any overpayments to her with 8%\* simple interest from the date they were paid to the date of settlement.
- Remove, as appropriate, any adverse information about loan two from Ms A's credit file.

\*HM Revenue & Customs requires 118 118 Money to deduct tax from this interest. It should give Ms A a certificate showing how much tax it's deducted if she asks for one.

### **My final decision**

I uphold the complaint and require Madison CF UK Limited trading as 118 118 Money to provide the remedy set out under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms A to accept or reject my decision before 25 May 2022.

Ray Lawley  
**Ombudsman**