DRN-3090720

The complaint

Mr A has complained that Madison CF UK Limited (trading as 118 118 Money) was irresponsible in lending to him.

What happened

In October 2017 Mr A took out a loan with Madison for £1,800. He said the loan was to consolidate his debts. The loan was taken out over 24 months with an APR of 169.9% and his monthly repayments were £182.47 making the total repayable at the end of the term £4,379.28. The loan was repaid in August 2018.

Mr A complained that Madison hadn't properly checked he could afford the loan.

Madison looked into his complaint and didn't uphold it. It said the checks had been properly carried out and it thought the loan was sustainable. Mr A referred his complaint to us.

Our adjudicator upheld Mr A's complaint and thought Madison shouldn't have lent the loan.

As Madison disagreed, the complaint has been 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 A's complaint. These two questions are:

1. Did Madison complete reasonable and proportionate checks to satisfy itself that Mr A would be able to repay the loan in a sustainable way?

- If so, did it make a fair lending decision?
- If not, would those checks have shown that Mr A would've been able to do so?

2. Did Madison act unfairly or unreasonably in some other way?

The rules and regulations in place required Madison to carry out a reasonable and proportionate assessment of Mr A's 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 Madison had to think about whether repaying the loan would be sustainable. In practice this meant that the business had to ensure that making the repayments on the loan wouldn't cause Mr A undue difficulty or significant adverse consequences. That means he 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 he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation.

In other words, it wasn't enough for Madison to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr 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.

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 A's complaint.

With regard to the first question, Madison gathered some information from Mr A about his income and expenditure before it made the loan. It also carried out a credit check.

I'm not satisfied that these checks went far enough. I say that because:

- the loan was over a period of 24 months and Madison needed to ensure the repayments were sustainable over that relatively long period of time.
- Mr A had taken out a loan with an outstanding balance of £7,123 only four months earlier.
- At the start of 2017 he'd taken out a loan with an outstanding balance of £1,984.
- He owed £320 on his credit card.

I've considered that Mr A said he intended to use this loan to repay some of his debts. But the amount he was borrowing was significantly less than what he owed to other lenders. So in my view Madison should have queried this as I think taking out three unsecured loans in under a year indicated that Mr A might well be under some sort of financial pressure.

Mr A declared a net income of £1,800 a month and living costs of £655, including his mortgage. He also said he had no existing credit commitments. However Madison could see his unsecured commitments were £368 a month based on the commitments it saw on his credit report, excluding the new loan repayment of £182.47. So in giving the loan Madison was increasing Mr A's monthly unsecured credit commitments to around £550 – a significant proportion of Mr A's monthly income. I think Madison ought to have realised this meant there was a risk the repayments would not be sustainably affordable for Mr A. The fact he made all his repayments does not alter this finding as we don't know how Mr A managed to do so.

So, while on the surface the statistical calculation showed Mr A should be able to afford the loan, I think looking at his borrowing patterns there was some doubt as to whether he'd be able to maintain the repayments over a 24 month period. So, I don't think Madison focussed on Mr A as a borrower and his specific circumstances. I think Madison ought reasonably to have been aware it was unlikely that he would be able to sustainably repay the loan over the loan term. In my opinion Madison should reasonably have concluded that it was not appropriate to lend to Mr A.

I've also thought about whether Madison acted unfairly in some other way and I haven't seen any evidence that it did.

Putting things right

To put things right I think Madison should:

- refund all interest, fees and charges Mr A paid towards the loan;
- add 8%* simple interest on the above from the date of payment to the date of settlement; and
- remove any adverse information about the loan from Mr A's credit file.

*HM Revenue & Customs requires Madison to take off tax from this interest. Madison must give Mr A 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 A's complaint. Madison CF UK Limited (trading as 118 118 Money) should put things right for Mr A as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 13 January 2022.

Elizabeth Grant
Ombudsman