

The complaint

Mrs B complains that Madison CF UK Limited ("118 118 Money") lent to her in an irresponsible manner.

What happened

Mrs B was given a fixed term loan by 118 118 Money. She took the loan out on 26 November 2013 for £2000 to be repaid over 2 years at a monthly repayment of £160.33.

Mrs B has an amount left outstanding to repay to a third party.

Mrs B's complaint has been assessed by one of our investigators. He thought that the checks 118 118 Money had done before agreeing the loan had been sufficient. He also felt after looking at what 118 118 Money would have had in front of it, that it made a fair lending decision. So, he didn't uphold Mrs B's complaint.

Mrs B, through her representative didn't agree with our investigator.

So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process. If Mrs B accepts my decision it is legally binding on both parties.

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 approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding Mrs B's complaint.

We've set out our general approach to complaints about unaffordable/irresponsible lending - including the key rules, guidance and good industry practice - on our website. And I've referred to this when deciding Mrs B's complaint.

I need to take into account the relevant rules, guidance and good industry practice.

The Office of Fair Trading (OFT) was the regulator when Mrs B borrowed from 118 118 Money. The relevant rules and guidance set out by the OFT in its Irresponsible Lending Guidance (ILG) said that before agreeing credit it needed to check that Mrs B could afford to meet her repayments in a sustainable manner. This meant Mrs B being able to meet her repayments out of her normal income without having to go without or borrow further. I've set out some of the relevant guidance below for ease.

ILG Paragraph 4.2 stated:

Whatever means and sources of information creditors employ as part of an assessment of affordability should be sufficient to make an assessment of the risk of the credit sought being

unsustainable for the borrower in question. In our view this is likely to involve more than solely assessing the likelihood of the borrower being able to repay the credit in question.

Paragraph 4.3 stated:

The OFT regards 'in a sustainable manner' in this context as meaning credit that can be repaid by the borrower:

without undue difficulty – in particular without incurring or increasing problem indebtedness

over the life of the credit agreement or, in the case of open-end agreements, within a reasonable period of time

out of income and/or available savings, without having to realise security or assets.

And Paragraph 4.4 described “undue difficulty”:

The OFT would regard 'without undue difficulty' in this context as meaning the borrower being able to make repayments (in the absence of changes in personal circumstances that were not reasonably foreseeable at the time the credit was granted):

while also meeting other debt repayments and other normal/reasonable outgoings and

without having to borrow further to meet these repayments.

Paragraph 4.26 gave an example of irresponsible lending as “Granting an application for credit when, on the basis of an affordability assessment, it is known, or reasonably ought to be suspected, that the credit is likely to be unsustainable.”

The regulations weren't prescriptive about what checks 118 118 Money needed to carry out in order to reasonably assess whether or not Mrs B would be able to meet her repayments sustainably. But the regulations said that such checks needed to be proportionate. This suggests that the same checks might not be appropriate for all borrowers, or for the same borrower in all circumstances. In general, I'd expect a lender to seek more assurance, potentially by carrying out more detailed checks

- the *lower* a person'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 *longer* the term of the loan (reflecting the fact that the total cost of the credit is likely to be greater and the borrower is required to make payments for an extended period).

Bearing all of this in mind, in coming to a decision on Mrs B's case, I have considered the following questions:

- did 118 118 Money complete reasonable and proportionate checks when assessing Mrs B's application to satisfy itself that she would be able to repay the credit in a sustainable way? And, if not, what would reasonable and proportionate checks have shown?
- did 118 118 Money make a fair lending decision?

I've carefully thought about all of the relevant factors in this case.

118 118 Money gathered some information from Mrs B before it agreed to the loan. It asked her for her monthly income and then verified this amount using an online verification tool. It then asked her questions about expenditure. It finally then carried out a credit search to check against any existing credit commitments.

Mrs B was entering into a significant commitment with 118 118 Money. She was agreeing to make monthly repayments for a period of two years. So, I think it is right that 118 118 Money wanted to gather, and independently check (regarding her income and through the credit search), some detailed information about Mrs B's financial circumstances before it agreed to lend to her. I think that the checks it did achieved that aim. I think on balance its checks were proportionate.

But simply performing proportionate checks isn't always enough. A lender also needs to react appropriately to the information those checks show. So, I've looked at the information 118 118 Money gathered from Mrs B to check whether I agree it was appropriate for her to be given the loan.

I can see that 118 118 Money had worked out Mrs B had enough disposable income to be able to comfortably afford the repayments. This was early on in the lending relationship between the parties and the credit search results wouldn't have shown any concerns to 118 118 Money from what I have seen. From the information it gathered, I think it would have been apparent to 118 118 Money that the loan was affordable and there was nothing that it would have had in front of it that would have shown it she was struggling to manage her finances.

So, overall, I agree with our investigator. I don't think 118 118 Money's proportionate checks would have suggested that Mrs B would have problems repaying this loan. So, I don't think 118 118 Money was wrong to give the loan to Mrs B.

My final decision

My decision is that I do not uphold Mrs B's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 12 February 2022.

Mark Richardson
Ombudsman