

The complaint

Mr G complains about Madison CF UK Limited trading as 118 188 Money (MCU) and their decision to provide him with a high interest loan, which he says was unaffordable.

What happened

In December 2016, Mr G applied for a loan with MCU. This application was approved, and Mr G received £2,000, with £3,791.76 being repaid over 24 months at a monthly repayment of £157.99.

But Mr G struggled to meet this monthly repayment almost immediately. This resulted in Mr G's account accruing arrears and eventually being defaulted, with the outstanding debt being passed to a third-party debt management company. Mr G was unhappy with this, so he raised a complaint.

Mr G thought MCU had acted irresponsibly when approving the loan. He thought it should've been reasonably clear to them that the loan was unaffordable and that, at the time, he was desperate for credit to try and maintain his financial situation. Mr G explained the loan forced him to fall behind on other financial commitments as well as rent to his parents, which had also impacted them financially. And this had caused Mr G significant stress and anxiety. So, Mr G wanted MCU to refund him any interest and charges applied to the account and for any negative information reported to his credit file to be removed.

MCU didn't agree. They thought their decision to approve the loan was fair, based on the income and expenditure information Mr G provided, as well as the information shown on his credit file. And they thought the interest rate included with the loan, and the required monthly repayment, were made clear. So, they didn't think they needed to do anything more. Mr G remained unhappy with this response, so he referred his complaint to us.

Our investigator looked into the complaint and upheld it. They didn't think the figures MCU used when considering Mr G's income were reasonable. In particular, the monthly amount MCU budgeted for food and the lack of any travel expenses. Our investigator thought if MCU had, it would've become clear the loan was unaffordable to Mr G. And they also thought Mr G's credit file, and in particular his recent increased need to credit, should've suggested to MCU that Mr G was in a difficult financial situation and so, providing a loan would place him in further difficulty. So, our investigator thought MCU should refund all of the interest and charges applied to the loan. And if this left a capital balance being owed to Mr G, our investigator thought this should be refund plus 8% interest from the date overpayments were made until the date of settlement. And finally, they thought MCU should removed any negative information recorded to Mr G's credit file.

Mr G accepted this outcome. But MCU didn't. MCU didn't agree with the additional amount our investigator included in Mr G's living expenses. And they didn't think our investigator had placed enough emphasis on the fact Mr G was living with his parents at the time. So, they maintained their stance that the loan was provided responsibly. Our investigator re-iterated their view the loan was unaffordable, and his reasons for this. MCU still disagreed, so the complaint has been passed to me for a decision.

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.

Having done so, I'm upholding the complaint for broadly the same reasons as the investigator. I've focused my comments on what I think is relevant. If I haven't commented on any specific point, it's because I don't believe it's affected what I think is the right outcome.

When a lender considered a customer's application for credit, there aren't a set amount of checks they are expected to complete before making their lending decision. But we would expect these checks to be proportionate to the value of the loan against the income of the customer. So, I've first thought about whether I think the checks MCU completed were proportionate.

MCU have confirmed they considered the income and expenditure information provided at the point of application, alongside Mr G's credit file and their use of a system called TAC, that verifies a customer's income. This system confirmed Mr G's income to be like the £1,100 he declared in his application. So, when considering the monthly loan repayment of £157.99 was just under 15% of Mr G's monthly income, I think the initial checks MCU completed were proportionate.

But as well as considering the proportionality of the checks, I also need to be satisfied MCU assessed the information these checks provided fairly. And in this situation, I don't think that's the case.

I can see MCU determined Mr G's monthly outgoings to be around £800, which was calculated as £300 for rent, £150 for utility bills, £100 for food and credit repayments at £250. So, they thought Mr G was left with around £300 after this each month and so, they thought this suggested the loans monthly repayment of £157.99 was affordable as Mr G would still be left with £142.01 disposable income each month.

But I don't think these calculates were fair. I think the £100 a month MCU budgeted for food each month was relatively low and I think this amount should've been increased to at least £150, so an additional £50. And I can't see that in any of MCU's calculations, they considered any form of travel costs for Mr G. I don't think this is reasonable as I think it's fair to assume Mr G would've needed to travel to and from work at the very minimum. And I think it's reasonable to assume this would've come at a cost to Mr G. So, at the very least, I would've expected MCU to attribute another £50 - £100 to factor this in.

So, in very best scenario, I think Mr G's outgoings should've been budgeted at £900 to factor in the above. And this would mean Mr G was left with £200 each month, before the monthly repayment of the loan was taken. So, when this was factored in, in the very best situation I think MCU should've calculated that Mr G would be left with £42.01 disposable income each month. And I don't think this is fair, nor does it show that the loan is affordable, as I don't think £42.01 a month for other outgoing such as clothing and entertainment is anywhere near enough for Mr G to live on.

And I also don't think MCU took into consideration the information reported to Mr G's credit file. This shows that in the three months before the loan was approved, Mr G applied for credit on six different occasions. And MCU's affordability report generated from the credit file information shows Mr G's balance to limit ratio on his existing credit had increased from three months prior to the application, to the application itself. I think this information combined should've suggested to MCU that in the months prior to the application, Mr G had

become reliant on credit. And at the very least, I would've expected MCU to question this with Mr G and request further information, such as bank statements over that period, to gain a clear understand of Mr G's financial situation. And I think it's reasonable for me to assume if they had, they wouldn't have approved Mr G's loan as Mr G was unable to meet the minimum monthly repayment from the first month it was due.

I recognise MCU don't agree, and I've considered the points they've raised in objection. But I don't think Mr G's living status has any materially impact on the decision I've reached as it's not been disputed that Mr G had to pay rent, even if this was to his parents. And I think it's reasonable for me to assume Mr G was expected to pay towards the house, as the loan was approved on the basis that it was needed for home improvements.

So, I don't think MCU's decision to approve the loan was fair or reasonable and so, I've thought about what I think they should do to put things right.

Putting things right

When considering what I think MCU should do, any award or direction I make is intended to place Mr G back in the position he would've been, had MCU acted fairly in the first place. It isn't intended to place Mr G in a position of betterment as any decision I make must be fair to both parties.

So, I must consider the fact Mr G received the loan and was able to use the funds provided to him. Because of this, I think Mr G should be expected to repay the capital balance of the loan.

But as I don't think the loan should've been provided, I think any interest and charges applied to the loan should be removed. And if this results in Mr G being owed a refund due to the payments he's made clearing the capital balance of the loan, I think MCU should pay this to Mr G plus 8% interest from the date of the overpayment to the date of settlement.

If a capital balance remains outstanding, I'd expect MCU to act positively and sympathetically towards Mr G's situation and so, look to agree an affordable and suitable repayment plan with him.

And finally, if MCU had declined the loan, the loan would never have been reported to Mr G's credit file. So, I think any information regarding the loan reported to Mr G's credit file should be removed.

HM Revenue & Customs requires 118 118 Money to take off tax from this interest. 118 118 Money must give Mr G a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons outlined above, I uphold Mr G's complaint about Madison CF UK Limited trading as 118 188 Money and I direct them to do the following:

- Restructure the loan, removing any interest and charges that have been applied while taking into consideration the payments Mr G has made;
- If this leaves a refund being owed to Mr G, pay this plus 8% simple interest a year from the date of the first overpayment to the date of settlement;
- If a capital balance remains outstanding, agree an affordable and suitable repayment

with Mr G; and

- Remove any information recorded on Mr G's credit file relating to the loan.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 4 April 2022.

Josh Haskey
Ombudsman