

The complaint

Mr B complains that Madison CF UK Limited (trading as 118 118 Money) granted him loans that were unaffordable.

What happened

In March 2019, Mr B took out a loan for £1,000 with Madison. The loan was to be repaid over 18 months with repayments set at £106.85 a month.

In December 2020, Mr B took out a second loan with Madison. This was for £3,500 to be paid back over 24 months with repayments set at £280.38 a month.

In early 2021, Mr B complained that Madison had lent to him irresponsibly. He said Madison hadn't sufficiently checked his finances or personal situation to make sure he'd be in a position to pay back the loans. Madison said it was satisfied it had acted correctly when it approved his loan applications.

Our investigator looked into Mr B's concerns but didn't think his complaint should be upheld. She thought Madison had made fair lending decisions for both loans.

Mr B disagreed with our investigator's view. He said the bonus he'd received from his employer in October 2020 was almost entirely used to service a charge card as was the loan from Madison in December 2020. He provided credit card statements to show outgoings for bills. He said he was placed on the Coronavirus job retention scheme for a time and had to utilise the FCA payment holiday, including for the first loan with Madison. His credit card payments were significantly higher than the minimum payment to avoid paying interest. He also referred to another case he'd brought to our service (about a different lender) which had been upheld.

I issued a provisional decision on 5 October 2021 where I explained why I intended to uphold Mr B's complaint. In that decision I said:

"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint."

Based on what I've seen so far, I intend to uphold Mr B's complaint in part. I'll explain why.

The relevant rules, regulations and guidance required Madison to carry out reasonable and proportionate checks to ensure Mr B could afford to repay the loans in a sustainable manner. The checks needed to be borrower-focused. It wasn't enough for Madison to think only about the likelihood of getting its money back. It also had to ensure that making the repayments wouldn't cause Mr B undue difficulty or have adverse consequences for him.

There isn't a set list of checks that lenders need to carry out, but they should be proportionate, taking a number of factors into consideration. These factors include the amount, type and cost of the credit as well as the personal circumstances of the consumer.

Loan 1

Before granting the first loan of £1,000 in March 2019, Madison gathered information from Mr B and it also checked his credit file. It says Mr B said his monthly income was £2,235 and it validated this using information from a credit reference agency.

Madison says Mr B told it he paid £500 towards rent, £150 towards his existing credit commitments and £600 for all other outgoings. From the information on Mr B's credit file, Madison calculated that Mr B's existing credit commitments were higher than he'd stated (£417.25 a month). It worked out that he'd be left with around £610 disposable income after taking his outgoings and its loan repayment of £106.85 into account.

Mr B's credit file at the time of the loan application shows his total debt was £6,796. £3,932 of this was for loans and £2,864 was for revolving credit. It shows he was only utilising 46% of the available credit on his credit cards at that time. Although there were some defaults showing on his credit file, none of these had occurred in the previous 12 months.

The credit file shows that Mr B was committed to paying £114 a month for an unsecured loan. There was also a payday loan with a balance of £160. If Mr B had also paid 5% of his defaulted loans and credit card balances, he would have been left with over £500 a month, after taking into account what he'd told Madison about his outgoings and the new loan repayment.

I think the checks Madison carried out before granting the first loan were proportionate for the amount and duration of the loan. And these suggested the loan repayments were affordable. So, I think Madison's decision to grant the first loan was fair and reasonable.

Loan 2

In December 2020, Madison granted Mr B a second loan for £3,500.

Madison says Mr B gave his income as £2,800 on his application for the second loan and this was validated as being accurate. After considering the information on his credit file, Madison worked out his outgoings were around £2,163 which was higher than the amount given by Mr B. After taking away the new loan repayment of £280.38, Madison calculated that Mr B would be left with around £357 disposable income and concluded the loan was affordable.

Mr B had only recently finished paying off the first loan when Madison granted the second loan. It was for a higher amount and was for a longer period than the first. I can see that Mr B took slightly longer to pay off the first loan than what was set out in the agreement. Mr B says that he was given a payment holiday because of the impact of the Coronavirus pandemic on his employment. The information on credit file shows that Mr B's debt was more than double what it was when Madison granted the first loan. It shows he was utilising 94% of the available credit on his credit cards.

Considering the above, I don't think the checks Madison carried out before granting the second loan were proportionate. So, I've gone on to consider what I think proportionate checks would likely have shown.

Mr B has provided bank statements for the months leading up to his application for the second loan. These show he was spending a significant amount of his salary on gambling transactions. He spent well over £4,000 on gambling in October and November 2020.

I appreciate that different checks show different things, but I think if Madison had carried out what I'd consider to be proportionate checks, it would have discovered more about Mr B's

financial situation. If Madison had been aware of Mr B's pattern of spending, I think it ought to have concluded that there was a significant risk that Mr B would struggle to repay the loan sustainably and that it was not appropriate to lend to him.

Having considered everything I've seen so far, I don't think Madison acted responsibly when it granted Mr B the second loan."

I set out what I intended to direct Madison to do to put things right. And I gave both parties the opportunity to send me any further information or comments they wanted me to consider before I issued my final decision.

Responses

Mr B said there was nothing further he would like to add. Madison said it accepted my provisional 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.

As both parties have accepted the conclusions I reached in my provisional decision, I see no reason to change them.

Putting things right

I think it's fair and reasonable for Mr B to repay the principal amount that he borrowed because he's had the benefit of that lending. But he has paid interest and charges on a loan that shouldn't have been provided to him. So, Madison should:

- Remove all interest and charges from the second loan and treat all the payments Mr B made as payment towards the capital.
- If reworking Mr B's loan account results in him having effectively made payments above the original capital borrowed, then Madison should refund these overpayments with 8% simple interest on the overpayments from the date they would have arisen to the date of settlement*
- If reworking Mr B's loan account leaves an amount of capital still to be paid, then Madison should take a sympathetic view when seeking to agree an affordable repayment plan with Mr B for the revised balance.
- Remove any adverse information recorded on Mr B's credit file in relation to the second loan.

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

My final decision

For the reasons I've explained, I uphold Mr B's complaint and direct Madison CF UK Limited to put things right by doing as I've said above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or

reject my decision before 3 December 2021.

Anne Muscroft
Ombudsman