

The complaint

Mr M says Madison CF UK Limited (trading as 118 118 Money) lent to him irresponsibly.

What happened

Mr M took out four instalment loans from 118 118 Money. A summary of his borrowing follows.

loan	taken	repaid	value, £	term in months	monthly repayment, £	total repayable, £
1	02/06/2015	29/01/2016	1000	12	118.17	1418.04
2	29/01/2016	11/05/2016	1559.97	24	123.74	2969.76
3	29/09/2019	17/04/2020	1000	12	101.60	1219.2
4	12/07/2020	19/10/2020	1550	24	91.98	2207.52

Mr M says 118 118 Money didn't complete proper affordability checks or assess signs of his over indebtedness.

Our adjudicator said Mr M's complaint should be upheld in part – in relation to loans 2, 3 and 4. He said 118 118 Money carried out proportionate checks for all four loans and made a fair lending decision for loan 1. But for the other loans Mr M's credit commitments by then made up a significant proportion of his declared income, and so there was a high risk the loans would not be sustainably affordable for Mr M.

118 118 Money disagreed saying it was unfair to uphold Mr M's complaint on this basis - as opposed to how Mr M was managing his credit at the time of each application.

As an agreement wasn't reached the complaint was passed to me to make a decision. I reached the same conclusion as the adjudicator, but in places I made different findings so I issued a provisional decision (an extract follows and forms part of this final decision). I asked both parties to submit any new comments or evidence before by 10 November 2021.

Extract from my provisional decision

I can see 118 118 Money asked for some information from Mr M before it approved the loans. It asked for his monthly income and expenditure. It completed income verification with a third party. Each time, it checked Mr M's credit file to understand his existing monthly credit commitments and credit history. From these checks combined 118 118 Money concluded Mr M had sufficient disposable income to afford the loans.

Loan 1

I think the checks 118 118 Money carried out were proportionate given the size and term of the loan, and the age of the lending relationship. Mr M declared an income of £1315 and living costs of £485. He declared his existing credit commitments were £165 a month. 118 118 Money could see they were £304.50 based on the credit commitments it saw on his

credit report. This gave Mr M a monthly disposable income of around £490.

From its credit check the lender could see Mr M had eight active credit accounts and around £3,500 of unsecured debt. He had an overdraft facility but wasn't using it at this time, and he was up-to-date with all his repayments. So I don't think 118 118 Money ought to have been concerned the loan wouldn't be sustainable affordable for Mr M.

It follows I don't think 118 118 Money was wrong to give Mr M loan 1.

Loan 2

I don't however think the checks 118 118 Money carried out for loan 2 were proportionate. Mr M returned to borrow again before he had repaid loan 1 and the results of 118 118 Money's credit check showed that he had taken out five loans in the three months before this application. The values and terms suggested they were high-cost short-term loans. So I think 118 118 Money needed to carry out further checks to reassure itself that Mr M's finances were not under too much pressure before agreeing to lend.

I have looked at Mr M's bank statements in the months prior to this application to understand what better checks would most likely have shown 118 118 Money. They show that Mr M's income was lower than the £1,800 he had declared at £1,507. And the lender knew from its credit check that Mr M was already spending around £550 a month to maintain his existing credit commitments. So as responsible lender I think it ought to have realised giving the loan - and so increasing the proportion of his income Mr M had to spend to manage his debt - was likely to be unsustainable for him. As it knows it needed to check this, not just the pounds and pence affordability to meet its obligations under CONC 5.3.1(G). This stated:

- 1. In making the creditworthiness assessment or the assessment required ..., a firm should take into account more than assessing the customer's ability to repay the credit.*
- 2. The creditworthiness assessment and the assessment required ... should include the firm taking reasonable steps to assess the customer's ability to meet repayments under a regulated credit agreement in a sustainable manner without the customer incurring financial difficulties or experiencing significant adverse consequences.*

The lender has argued we should consider how Mr M was managing his credit, not just how much of his income was needed for this. But in line regulatory guidelines (as set out above) I don't think it is enough for the lender to just consider the current status of Mr M's accounts, and not assess how increasing his indebtedness may impact his financial stability over the term of the loan.

It follows I think 118 118 Money was wrong to give loan 2 to Mr M.

Loan 3

There was a gap of over three years between loans 2 and 3. When 118 118 Money carried out its credit check for loan 3 it could see Mr M's unsecured debt had increased 13-fold to £35,323 in that time. He had 12 active accounts and 60 settled accounts (compared to 3 settled accounts at the of loan 2). So given this very significant increase in indebtedness and use of credit, I think 118 118 Money should have carried out a fuller financial review to get the assurance it needed that Mr M's finances were such that he could afford this loan without any harmful consequences.

I have looked at Mr M's bank statements in the months prior to this application to understand what better checks would most likely have shown 118 118 Money. They show that Mr M was

by this stage having problems managing his money. He spent just under half his salary on gambling transactions in the month before this application. So had the lender carried out better checks I think it ought to have realised there was a high risk the loan would not be sustainably affordable for Mr M.

It follows I think 118 118 Money was wrong to give loan 3 to Mr M.

Loan 4

Given what 118 118 Money would most likely have known had it completed proportionate checks at the time of loan 3, I think it would need to have completed a full review of Mr M's actual financial position as his application for loan 4 was only 10 months later. Again I have looked at bank statements to see what it would most likely have found. Had it completed better checks it would have seen Mr M was still having problems managing his money, spending a significant proportion of his income on gambling. So it would have realised it was most likely the loan would not be sustainably affordable.

It follows I think 118 118 Money was wrong to give loan 4 to Mr M.

I haven't found any evidence that 118 118 Money acted unfairly or unreasonably in some other way.

I then set out what 118 118 Money would need to do to put things right if I went on to uphold the complaint about loans 2,3 and 4.

Mr M responded before the deadline, accepting the provisional decision. 118 118 Money did not reply.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

As neither party sent in any new comments or information, I have no reason to change the findings or outcome I set out in my provisional decision. It follows I find 118 118 Money was wrong to give loans 2, 3 and 4 to Mr M.

Putting things right

I think it's fair and reasonable for Mr M to repay the capital that he borrowed as part of loans 2, 3 and 4 because he had the benefit of that money. But he has paid interest and charges on these loans that shouldn't have been provided to him.

It should:

- Add up the total amount Mr M repaid and deduct this sum from the capital amount of loans 2, 3 and 4.
- If this results in him having effectively made payments above the original capital borrowed, then 118 118 Money should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- Remove any adverse information recorded on Mr M's credit file in relation to loans 2

3 and 4.

*HM Revenue & Customs requires 118 118 Money to deduct tax from this interest. 118 118 Money should give Mr M a certificate showing how much tax it's deducted, if he asks for one.

My final decision

I am upholding Mr M's complaint in part in relation to loans 2, 3 and 4. Madison CF UK Limited (trading as 118 118 Money) must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 9 December 2021.

Rebecca Connelley
Ombudsman