DRN-3166548

Financial Ombudsman Service

The complaint

Mr H, through his representative, complains that Madison CF UK Limited, lent to him irresponsibly.

What happened

Madison approved a loan of £1,500 for Mr H in June 2017. It was repayable over 24 months at just over £144 each month. Madison has told us that the balance was assigned to a debt purchaser on 30 April 2019.

Mr H complained in May 2021 and received Madison's final response letter (FRL) in June 2021. Mr H referred his complaint to the Financial Ombudsman Service where one of our adjudicators looked at the complaint.

Our adjudicator thought that the details Mr H had given to Madison, together with the checks it carried out before lending meant that Madison had carried out proportionate checks and so it had not done anything wrong before approving the loan.

Mr H said that he wanted an ombudsman to review the complaint. He would send in copy bank statements to support his complaint. The statements received by us all post-date the loan approval date by several months. These cover the period June 2018 to April 2019.

The unresolved complaint was passed to me to decide.

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 the relevant rules, guidance and good industry practice - on our website.

Taking into account the relevant rules, guidance and good industry practice, what I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are whether Madison completed reasonable and proportionate checks to satisfy itself that Mr H would be able to repay in a sustainable way? And, if not, would those checks have shown that Mr H would've been able to do so?

If I determine that Madison did not act fairly and reasonably in its dealings with Mr H and that he has lost out as a result, I will go on to consider what is fair compensation.

The rules and regulations in place required Madison to carry out a reasonable and proportionate assessment of Mr H'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 and/or cause significant adverse consequences for Mr H. In practice this meant that Madison had to ensure that making the payments to the loan wouldn't cause Mr H undue difficulty or significant adverse consequences.

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 H. 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 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.

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 the arguments, evidence and information provided in this context and what this all means for Mr H's complaint. I have decided not to uphold Mr H's complaint and I will explain here.

Mr H was a new customer to Madison. From Madison's records it has sent to us, Mr H had informed it he was living at home with parents and his salary was £1,700 a month. His outgoings were relatively low at £110 for household items and food, £100 a month for utilities, £30 a month for other credit obligations and £187 a month for insurances. He had given the reason for the loan - '*everyday expenses'*.

Madison has explained that it increased these expenditure figures and so its own calculations were based on higher expenditure figures than those provided by Mr H at the point of application.

Having reviewed the records Madison has sent to me, it carried out an income verification which dovetailed with what Mr H had told them. Madison carried out a credit search and it has sent to us those results. It did not show a great deal of outstanding debt. And revealed little to give it concern.

An indication as to why it was Madison likely considered Mr H's financial situation not to be a precarious one is this summary of Mr H's indebtedness at the time he applied in June 2017.

> ***'Indebtedness Indicators***
>
> *Total Balances (All): £ 1,200*
> *Total Balances (Revolving Credit/Budget): £ 499*
> *Total Limits (Revolving Credit/Budget): £ 500*
> *Balance to Limit Ratio (Revolving Credit/Budget): 99 %'*

And although I can see Mr H did have registered a default or two – they dated back to 2012/2014 and either had been, or were being, paid down. Having a relatively small amount of historic adverse information on a credit file is not usually a reason not to lend. Mr H's overall debt level was low in June 2017.

So, the proportionate checks for Mr H's loan were fulfilled and the information Madison acted on before approving the loan was appropriate. Mr H's figures combined with what it had seen on the credit searches led it to consider Mr H could afford the loan.

Mr H's representative has said that his bank statements are relevant and ought to be reviewed to gain a full picture. I do not agree with that. Sometimes that may be the situation, but not with Mr H's circumstances as I consider that Madison had done all that I would have expected it to have done before lending.

And in any event, the copy bank statements we received from Mr H post-date the loan approval date and so are completely irrelevant when deciding on a complaint about irresponsible lending of a loan sold in June 2017. We have been informed that Mr H is not able to obtain the statements from June 2017.

My final decision

My final decision is that I do not uphold Mr H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 11 April 2022.

Rachael Williams
Ombudsman