

The complaint

Mr E complains that Madison CF UK Limited (trading as 118118 Money) irresponsibly provided him with an unaffordable loan.

What happened

118118 Money provided Mr E with a loan as follows:

Date loan taken	Amount	Term	Monthly repayment	Loan status
15/09/2017	£1,000	24 Months	£96.83	Paid (settled early in February 2018)

Mr E complained that 118118 Money's affordability checks were insufficient. He felt that if it had done proper checks it would have been apparent that the loan wasn't sustainably affordable for him. He told us that he was struggling to pay bills and needed to borrow to meet the repayments due to other lenders. He said he had a gambling addiction at the time and he was in a spiral of debt trying to manage his situation.

118118 Money didn't uphold his complaint and this led to Mr E bringing his complaint to us.

Our investigator didn't think that 118118 Money had done anything wrong when it provided the loan and didn't uphold Mr E's complaint.

Mr E disagreed with our investigator and asked for the complaint to be reviewed by an ombudsman.

The complaint came to me to decide. I issued a provisional decision.

What I said in my provisional decision

Here are some of the main things I said.

"There are some general principles I will keep in mind and questions I need to think about when deciding whether to uphold Mr E's complaint.

Before agreeing to lend, lenders must work out if a borrower can afford the loan repayments alongside other reasonable expenses the borrower also has to pay.

This should include more than just checking that the loan payments look affordable on a strict pounds and pence calculation. A lender must take reasonable steps to satisfy itself that the borrower can sustainably repay the loan – in other words, without needing to borrow elsewhere.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. For example, when thinking about what a borrower has left to spend on a new loan after paying other expenses, as well as taking into account the loan amount, the cost of the repayments and how long the loan is for, a proportionate check might mean a lender should also find out the borrower's credit history and/or take further steps to verify the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if a loan would've been approved if the checks had been done. If proportionate checks were done and a loan looked affordable, a lender still needed to think about whether there was any other reason why it would be irresponsible or unfair to lend.

For example, if the lender should've realised that the loan was likely to lead to more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

I've kept all of this in mind when thinking about Mr E's complaint.

118118 Money asked Mr E about his income and expenditure and also did its own credit checks in order to see how much Mr E was already paying towards servicing his existing debt and gain an understanding of his credit history.

Our investigator thought that 118118 Money's checks were reasonable and proportionate in the particular circumstances of this loan application. But I don't need to make a decision on that point because I don't think 118118 Money made a fair lending decision when it lent to Mr E based on the information it had in front of it.

I say this because I don't think 118118 Money thought carefully enough about what all the information it had gathered showed about Mr E's overall financial situation.

118118 Money recorded a figure of around £1,500 for Mr E's monthly earnings and an amount of £350 in respect of his normal monthly spending on housing, household bills and food. It allowed for Mr E spending £200 per month on insurance and paying £100 monthly towards his existing card and loan credit commitments.

Keeping also in mind that Mr E told 118118 Money he intended to use its loan for debt consolidation, in other words, to repay other outstanding debt, 118118 Money was satisfied that this meant its loan would be comfortably affordable for Mr E.

But I think 118118 Money was aware from its credit checks that Mr E needed to pay around £1,631 towards outstanding short-term and unsecured loans it could see listed in his credit history and shown as outstanding and due. Not only was this more than the amount of disposable income 118118 Money had calculated that Mr E had available – it exceeded the amount 118118 Money had recorded as his monthly take home pay. As well as this, he also needed to pay £119 per month on a hire purchase agreement for a car.

So I think that 118118 Money ought to have realised it was unlikely that Mr E would be able to sustainably repay his loan over the two year term.

And, in these circumstances, 118118 Money should reasonably have concluded that it was not fair to lend to Mr E.

And I think 118118 Money could've seen from its credit checks that Mr E's total outstanding credit balance on expensive short-term and unsecured loan was more than £3,500. So, even

if the loan 118118 Money provided was used for its stated purpose of debt consolidation, I don't think 118118 Money was able to safely say this would've improved Mr E's overall position sufficiently to achieve a significant and sustainable improvement in his financial situation. I think the scale of Mr E's debts, compared to the much smaller value of the loan, would suggest that he would inevitably remain extensively indebted. And if the total costs of servicing all his debt were properly taken into account I think 118118 Money should have realised that, in reality, making the monthly repayments for this loan would be beyond Mr E's means.

Alternatively, here's another way of looking at this complaint – which would still lead me to uphold it.

The information in the credit report 118118 Money acquired was seriously at odds with what Mr E had told 118118 Money about his finances and clearly indicated extensive use of high cost short-term and unsecured loans. So I think this should've prompted the lender to do more in-depth checks because it didn't look like 118118 Money had a proper understanding of Mr E's financial situation given the contradictions in what it saw between what Mr E had said (or omitted to say) about his disposable income and his apparent reliance on expensive credit – especially bearing in mind how much he was borrowing and the fact that he was signing up to pay the loan for the next two years.

118118 Money could, of course, decide for itself how to undertake proportionate checking. But Mr E has provided his bank statements from around the time of this loan and, in the absence of other evidence, I think these give a reasonable guide to Mr E's finances at the time. So I've looked through these to see what 118118 Money was likely to have found out about his overall financial situation had it carried out more in-depth checks.

And had 118118 Money looked more closely into Mr E's finances it would likely have seen that he was facing serious problems managing his money. His bank statements show that Mr E was spending heavily on gambling at the time – and effectively borrowing money to pay for this. And had 118118 Money done a proportionate check and seen this, I think it should've realised it shouldn't be providing the loan to Mr E as it wasn't likely to be sustainably affordable for him in these circumstances.

I've thought carefully about the fact that Mr E settled the loan early. But this doesn't mean that he was able to do so in a way that was sustainably affordable. For all the reasons above, I think 118118 Money ought reasonably to have been aware that taking further, costly lending was unlikely to help Mr E and more likely to increase his indebtedness over the longer term.

So, for all these reasons, I am planning on upholding Mr E's complaint that he should not have been given this loan.

I haven't seen anything which makes me think that 118118 Money acted unfairly or unreasonably towards Mr E in some other way. But as Mr E has been further indebted with a high amount of interest and charges on a loan that he shouldn't have been provided with, I'm satisfied that he has lost out as a result of what 118118 Money did wrong.

So, I think 118118 Money needs to put things right."

What the parties said in response to my provisional decision

I have heard nothing further from either party and the deadline for responses has now passed so I think it's reasonable for me to proceed with my review of this complaint.

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 this complaint.

Given that I've not received any further evidence or comment that changes my mind about this complaint, I confirm the conclusions I reached in my provisional decision.

Putting things right

I think it is fair and reasonable for Mr E to repay the principal amounts that he borrowed, because he had the benefit of that lending. But he has been charged extra for a loan that should not have been provided to him. In line with this Service's approach, Mr E shouldn't repay more than the capital amount he borrowed. As I understand the loan is now settled, 118118 Money should do the following:

- add up the total amount of money Mr E received as a result of having been given the loan. The repayments Mr E made should be deducted from this amount.
- If this results in Mr E having paid more than he received, then any overpayments should be refunded along with 8% simple interest* (calculated from the date the overpayments were made until the date of settlement).
- Remove any negative information recorded on Mr E's credit file regarding the loan.

*HM Revenue & Customs requires 118118 Money to deduct tax from this interest. 118118 Money should give Mr E a certificate showing how much tax has been deducted if he asks for one.

My final decision

I uphold this complaint and direct Madison CF UK Limited (trading as 118118 Money) to take the steps set out above to put things right for Mr E.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 22 December 2021.

Susan Webb
Ombudsman