

The complaint

Mr P complained that Madison CF UK Limited trading as 118 118 Money lent to him irresponsibly and provided him with an unaffordable loan.

What happened

Mr P was given a loan by 118 118 Money as follows:

| Loan start date | Loan amount | Monthly repayment | Total amount repayable | Loan term - months | Loan ended |
|-----------------|-------------|-------------------|------------------------|--------------------|------------|
| 2/9/2019 | £1,000 | £92.06 | £1,657.08 | 18 | 03/03/2020 |

One of our adjudicators reviewed Mr P's complaint. He didn't think that 118 118 Money should've provided the loan to Mr P so he recommended upholding the complaint and he set out the steps 118 118 Money needed to take to put things right.

118 118 Money disagreed with our adjudicator's view. It mainly said that there was nothing on the credit file it obtained that would have triggered seeking additional information and its checks supported the lending decision.

As the complaint hasn't been resolved, it comes 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 approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding this complaint. I have also taken into consideration regulatory rules and good industry practice at the time. Having done so, I am upholding Mr P's complaint for broadly the same reasons as our adjudicator.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out.

Lenders must work out if a borrower can sustainably 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 proportionate check might also require the lender to 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 looks affordable, a lender still needs to think about whether there's 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 significant adverse consequences or more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

118 118 Money asked Mr P about his income and expenses and carried out credit checks - and it sent this information to us. So I've been able to see information that 118 118 Money relied on when it agreed to provide this loan to Mr P.

118 118 Money was satisfied that its income and expenditure assessment showed that Mr P should comfortably be able to make the repayments on his 118 118 Money loan out of his disposable income after paying his other monthly costs. So 118 118 Money felt this loan was affordable for Mr P.

But like our adjudicator, I don't think 118 118 Money properly took into account the information it had gathered about Mr P's overall financial situation or the likelihood of him being able to pay its loan in a sustainable manner. And I don't think 118 118 Money made a fair lending decision when it lent to Mr P based on the information its credit checks revealed.

Despite recording information that appeared to show that Mr P had enough spare cash each month easily to cover the loan monthly repayments, I think 118 118 Money should've realised that it couldn't rely on this information. That's because what Mr P had declared was significantly at odds with what 118 118 Money saw on its credit checks showing Mr P's credit history. Contrary to information Mr P had declared, its credit checks showed he had taken out two unsecured loans within the previous 3 months, he was also paying vehicle finance and he was practically up to his £280 overdraft limit on a current account.

118 118 Money understood that Mr P's monthly income was around £1,095. So this meant that the total credit repayments he needed to make when he took out this loan took his debt servicing costs to around £388 – which was more than a third of his take home pay. And this didn't include him making any inroads into his overdraft at the bank. Bearing in mind that Mr P had also said he lived free of charge in another household, I think 118 118 Money should have realised that there was no obvious explanation why someone with the level of income Mr P had declared should apparently need to rely to this extent on using expensive credit.

I think this should've prompted the lender to do more in-depth checks because it didn't look like 118 118 Money had a proper understanding of Mr P's financial situation given the contradictions between what he had said (or omitted to say), the amount of disposable income 118 118 Money thought he had and the record of borrowing its own credit checks revealed. So, I've looked at what I think proportionate checks would likely have shown.

Bank statements provided by Mr P are a useful guide to understanding his overall financial situation at the time. These show that in addition to the two loans that 118 118 Money was aware of, he had also taken another loan of £1,100 just a week or so earlier.

With the repayment for this loan as well, Mr P was committed to spending such a significant proportion of his income just on servicing debt that there was a serious risk he wouldn't be able to meet his existing commitments without having to borrow again during the loan term.

As well as this, had 118 118 Money done what I consider would've been a proportionate check, it would likely have found out also that Mr P was spending significantly on gambling. Given that Mr P's spending pattern meant that he was persistently exceeding his overdraft limit, to the extent that his weekly pay wasn't enough to return the account to credit, I don't think 118 118 Money could reasonably have satisfied itself that providing this loan to Mr P

wouldn't put him in a worse position – particularly given the evidence it saw which suggested the likelihood this loan might be used to effectively fund what looked like a gambling problem.

So, for all these reasons I believe that if 118 118 Money had done a proportionate check it should've realised that this wasn't a sustainably affordable position for Mr P and it shouldn't have provided this loan. For these reasons, I'm upholding Mr P's complaint and 118 118 Money needs to put things right.

Putting things right

It's fair and reasonable for Mr P to repay the capital amount that he borrowed, because he had the benefit of that lending – but it's unfair to expect him to repay more than the capital amount he borrowed.

I understand the loan is repaid so 118 118 Money should do the following:

- add up the total amount of money Mr P received as a result of being given the loan. The payments Mr P made should be deducted from this amount
- if this results in Mr P 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 adverse information placed on Mr P's credit file regarding the loan.

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

My final decision

I uphold Mr P's complaint and direct Madison CF UK Limited trading as 118 118 Money to put things right as set out above. Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 17 March 2022.

Susan Webb
Ombudsman