

The complaint

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

Date taken	Amount	Term	Monthly repayment	Total amount repayable
9/9/2017	£2,000	24 months	£193.95	£4,654.80

One of our adjudicators reviewed Mr G's complaint. He felt that Mr G's credit history showed he was in financial difficulty and didn't think that 118 118 Money should've provided the loan to Mr G.

118 118 Money disagreed with our adjudicator's view. It mainly said that defaults and a county court judgement shown in Mr G's credit history dated back several years before Mr G applied for this loan.

As the complaint hasn't been resolved informally, 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 all these things in mind when thinking about this complaint. I'd like to reassure 118 118 Money that I've looked at the complaint afresh and independently reached the same conclusions as our adjudicator. I'll explain my reasons.

There are some general principles I will keep in mind and questions I need to think about when deciding whether to uphold Mr G'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. And it's important to keep in mind that, when working out affordability, a lender must take a 'borrower focussed' approach and think carefully about the impact of the lending on the customer. The lending decision shouldn't only be about the business risk to the lender of not getting its money back. 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. 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.

118 118 Money gathered some information from Mr G about his income and expenses before it agreed the loan. It said it completed industry standard verification checks to validate the information Mr G provided and it checked his credit file to understand his existing monthly credit commitments and credit history. 118 118 Money recorded information showing that Mr G's monthly income was around £1,000 and after allowing for his declared monthly outgoings and an amount to cover his existing credit commitments, 118 118 Money felt the loan monthly repayments should've been affordable out of his disposable income.

But despite recording information that appeared to show that Mr G had enough spare cash each month 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 G had declared was significantly at odds with what 118 118 Money saw in Mr G's credit history. And like our adjudicator, I don't think 118 118 Money properly took into account the information it had gathered about Mr G'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 G based on the information its credit checks revealed.

I agree with our adjudicator that Mr G's credit history was concerning. A county court judgement had been entered on his record less than 12 months before Mr G applied for this loan – not two years earlier as 118 118 Money has suggested. And although the defaults dated from 2014 and 2015, I think the overall picture was of someone who had struggled to manage his financial situation throughout the whole of the previous three years or so. I don't think 118 118 Money had any good reason to think that Mr G was on top of his finances when he applied for this loan given that it could see that just three months earlier he'd taken out a small unsecured loan of £65 which he was due to repay at just £6 per month. This would have seemed an unnecessarily expensive way to obtain a small amount of credit – especially given that 118 118 Money thought that Mr G should've had more spare cash than this each month and bearing in mind that the monthly repayments for its loan would be approximately three times the amount of that loan.

As well as this, the total credit repayments Mr G needed to make for this loan on top of another large unsecured loan he had taken out in 2014 that cost him £197 each month took his debt servicing costs to around 40% of his take home pay.

I think these were clear warning signs that Mr G's dependency on credit was excessive having regard to his income. And I think 118 118 Money ought to have realised that his credit spending was such a significant proportion of his take home pay each month that, in reality, this loan wasn't likely to be sustainably affordable for him over the loan term.

I've taken into account that 118 118 Money understood that the loan was intended for debt consolidation. But 118 118 Money didn't have control over how Mr G used the loan as it paid the loan balance to him. And it wasn't clear what debt he was planning to consolidate. To my mind, I don't think this would've seemed a very plausible reason to borrow as this loan wasn't enough to repay Mr G's only other big loan and it's difficult to see how using the loan to repay his other debt would've been worthwhile for Mr G to do.

So I think 118 118 Money should've realised that all the indications were that this loan would add to his overall debt and Mr G would most likely remain in serious financial trouble regardless. And, as mentioned above, it wasn't fair to expect him to be able pay such a significant level of his income towards debt repayments for the next 24 months. 118 118 Money should've realised that this wasn't a sustainably affordable position for Mr G and it shouldn't have provided this loan. For these reasons, I'm upholding Mr G's complaint.

As Mr G 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 118 118 Money did wrong. So, I think 118 118 Money needs to put things right.

Putting things right

Our adjudicator didn't recommend that 118 118 Money should pay any additional redress. Mr G hasn't commented on that and I haven't seen anything which makes me think 118 118 Money acted unfairly towards Mr G in any other way. So I'm not awarding any additional redress.

And I think it is fair and reasonable for Mr G to repay the principal amount 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 G shouldn't repay more than the capital amount he borrowed.

If 118 118 Money has sold any outstanding debt it should buy this back before doing what I have outlined below. If 118 118 Money isn't able to buy back any debt sold, then it should liaise with the new debt owner to achieve the following:

- add up the total amount of money Mr G received as a result of having been given the loan. The repayments Mr G made should be deducted from this amount.
- If this results in Mr G 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).
- If any capital balance remains outstanding, then 118 118 Money should attempt to arrange an affordable/suitable payment plan with Mr G.
- Whilst it's fair that Mr G's credit file is an accurate reflection of his financial history, it's unfair that he should be disadvantaged by any adverse information recorded about a loan that was unfairly provided. So 118 118 Money should remove any negative information recorded on Mr G's credit file regarding the loan.

*HM Revenue & Customs requires 118 118 Money to deduct tax from this interest. 118 118 Money should give Mr G a certificate showing how much tax has been deducted if he asks for one.

My final decision

I uphold Mr G'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 G to accept or reject my decision before 26 April 2022.

Susan Webb

Ombudsman