

The complaint

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

What happened

Mr B was given loans by 118 118 Money as follows:

Loan	Loan start date	Loan status	Loan amount	Total amount payable	Monthly payments	Term
1	4/1/2018	Paid by loan 2	£1,000	£1,622.34	£90.13	18 months
2	9/10/2018	19/6/2020	£1,321.88	£2,215.80	£123.10	18 Months

One of our adjudicators reviewed Mr B's complaint and didn't think that 118 118 Money should've provided either of the loans to Mr B. Our adjudicator recommended upholding the complaint and 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 it to complete more checks.

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 B'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 B about his income and expenses and carried out credit checks.

118 118 Money was satisfied that its income and expenditure assessment showed that Mr B should 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 B.

But like our adjudicator, I don't think 118 118 Money properly took into account the information it had gathered about Mr B'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 B based on the information it had gathered.

Contrary to information Mr B had declared, its credit checks showed he was paying more than he'd declared towards his existing credit commitments.

As well as this, 118 118 Money understood that Mr B's monthly income was around £1,800 after checking this electronically. So it was aware from its credit checks that the total credit repayments he needed to make when he took out this loan took his debt servicing costs to around £644 for his existing loans and his outstanding credit card debt. This was more than a third of his take home pay and I think this level of debt relative to his income was a clear warning sign that Mr B was potentially already facing financial difficulty.

And I think that concern is borne out by other information 118 118 Money could see which showed he had used payday and unsecured loans previously, repaying the last one just 6 months or so before applying for this loan. I don't think anything Mr B had told 118 118 Money was enough to explain his apparent need for expensive credit of this sort – 118 118 Money hasn't shown me it asked about this or that it knew how Mr B intended to use the loan.

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 B's financial situation. So, I've looked at what I think proportionate checks would likely have shown.

Bank statements provided by Mr B 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, and the credit cards it had seen in its credit checks, Mr B was also paying for other items of credit and making regular payments through a debt collection agency.

With the repayment for this loan as well, Mr B 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.

To my mind, if 118 118 Money had done a proportionate check it should've realised that this wasn't a sustainably affordable position for Mr B and it shouldn't have provided this loan.

Mr B took out loan 2 and used this to repay the balance owing on loan 1 and provide an extra £600 cash. 118 118 Money carried out similar checks for this loan and it could see that his income and declared expenditure was similar. It also saw that since he'd taken out loan 1, Mr B had opened two more large unsecured loans with other lenders and his total indebtedness had increased by around 20% in the nine months or so since he'd taken out loan 1.

I think this ought to have prompted 118 118 Money to do more in-depth checks before agreeing to provide this loan as there was a real risk that it would add to his escalating levels of debt. Had it done so, it would've seen nothing to reassure it that Mr B was in control of his finances. He was still paying outstanding debt through a debt collection agency and his spending on credit was now an even bigger proportion of his take home pay, which 118 118 Money should've realised was not likely to be sustainable at that level.

So I don't think it should've provided either of these loans.

For these reasons, I'm upholding Mr B's complaint and 118 118 Money needs to put things right.

Putting things right

It's fair and reasonable for Mr B 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 loans are repaid so 118 118 Money should do the following:

- add up the total amount of money Mr B received as a result of being given both the loans. The payments Mr B made should be deducted from this amount
- if this results in Mr B 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)
- whilst it's fair that Mr B'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 loans that were unfairly provided. So 118 118 Money should remove any negative information recorded on Mr B's credit file regarding both the loans.

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

My final decision

I uphold Mr B's complaint and direct Madison CF UK Limited trading as 118 118 Money to put things right.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 24 March 2022.

Susan Webb
Ombudsman