

## The complaint

Miss R complained that Madison CF UK Limited trading as 118 118 Money lent to her irresponsibly and provided her with an unaffordable loan.

## What happened

Miss R was given a loan by 118 118 Money as follows:

Date taken	Amount	Term	Monthly repayment	Total amount repayable	Loan status
22/10/2019	£2,000	18 months	£177.09	£3,187.62	Debt sold

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

118 118 Money disagreed with our adjudicator's view. It mainly said that a recent default balance had been cleared before Miss R applied for this loan and she hadn't missed any payments since.

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 Miss R'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. 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.

118 118 Money gathered some information from Miss R about her income and expenses before it agreed the loan. It said it completed industry standard verification checks to validate the information Miss R provided and it checked her credit file to understand her existing monthly credit commitments and credit history. 118 118 Money recorded information showing that Miss R's monthly income was around £1,149 and after allowing for her declared monthly outgoings and an amount to cover her existing credit commitments, 118 118 Money felt the loan monthly repayments should've been affordable out of her disposable income.

I think the checks were broadly proportionate. But, like our adjudicator, I don't think 118 118 Money properly took into account the information it had gathered about Miss R's overall financial situation or the likelihood of her 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 Miss R based on the information its credit checks revealed.

Despite recording information that appeared to show that Miss R 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 Miss R had declared was significantly at odds with what 118 118 Money saw in Miss R's credit history.

I think our adjudicator was correct in saying that Miss R's recent default was concerning. She had cleared the default balance of £221 in July 2019 within 3 months of this appearing on her credit file when the account had been passed to a debt collection agency. And in the 3 months since she hadn't incurred any missed payments.

But, looking at the bigger picture, Miss R also had two outstanding defaulted accounts dating back to 2014 and 2016. These had larger balances and it didn't look like she had made any progress towards repaying these accounts. I can understand why this would've been difficult for her – especially if she had prioritised the more recently defaulted account actively being pursued by a debt collector. She was at the limit of her £250 overdraft at the bank. 118 118 Money was able to see that she had struggled to repay this. She had exceeded her overdraft limit in February and March 2019. After managing to bring the account back to a nil balance in May and June it had increased again up to the account limit in the following months – possibly reflecting the extent to which Miss R was over-stretched by needing to find the money to repay the account in debt collection.

118 118 Money understood that Miss R's monthly income was around £1,149. So this meant that the total credit repayments she needed to make for this loan on top of a hire purchase agreement that cost her £236 each month took her debt servicing costs to around £413 – which was at least a third of her take home pay. And whilst I can understand that by this time the older defaults might not have been a spending priority for Miss R if they weren't being actively pursued, this didn't also include any payment towards clearing her overdraft.

I think these were clear warning signs that Miss R's dependency on credit was excessive having regard to her income – particularly since 118 118 Money understood that she was living in another household and making only a modest £60 contribution towards her board. Especially bearing in mind that Miss R had signed up to make the repayments for the next 18 months I think 118 118 Money ought to have realised that her credit spending was such a significant proportion of her take home pay each month that, in reality, this loan wasn't likely to be sustainably affordable for her.

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 Miss R used the loan as it paid the loan balance to her. It wasn't clear what debt she was planning to consolidate. Having gained an understanding of her financial situation, I think it was apparent that there was a real risk Miss R would use the loan to meet other immediate spending needs. Even if she had used this loan to repay some existing debt, I don't think 118 118 Money had sufficient reason to think this would've improved her overall position sufficiently to achieve a significant and sustainable improvement in her financial situation, given the small loan value compared to her outstanding indebtedness overall.

So I think 118 118 Money should've realised that all the indications were that Miss R would most likely remain in serious financial trouble regardless. And, as mentioned above, it was in any event unrealistic to expect her to be able to commit to paying such a significant level of her income towards debt repayments over the loan term.

118 118 Money should've realised that this wasn't a sustainably affordable position for Miss R and it shouldn't have provided this loan. And I think that's borne out by the payment problems she subsequently ran into – which to my mind were a reasonably foreseeable consequence of 118 118 Money providing this loan.

For these reasons, I'm upholding Miss R's complaint.

As Miss R has been further indebted with a high amount of interest and charges on a loan that she shouldn't have been provided with, I'm satisfied that she 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. Miss R hasn't commented on that and I haven't seen anything which makes me think 118 118 Money acted unfairly towards Miss R in any other way. So I'm not awarding any additional redress.

And I think it is fair and reasonable for Miss R to repay the principal amount that she borrowed, because she had the benefit of that lending. But she has been charged extra for a loan that should not have been provided to her.

In line with this Service's approach, Miss R shouldn't repay more than the capital amount she borrowed.

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

- add up the total amount of money Miss R received as a result of having been given the loan. The repayments Miss R made should be deducted from this amount.
- If this results in Miss R having paid more than she 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 Miss R.
- Whilst it's fair that Miss R's credit file is an accurate reflection of her financial history, it's unfair that she 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 Miss R's credit file regarding the loan.

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

### **My final decision**

I uphold Miss R'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 Miss R to accept or reject my decision before 25 April 2022.

Susan Webb  
**Ombudsman**