

## **The complaint**

Mrs M complains about the interest Madison CF UK Limited (trading as 118 118 Money) charged her when she settled her loan early. She also says it acted irresponsibly by granting her a loan that was unaffordable for her.

## **What happened**

In late 2021, Mrs M took out a loan with Madison for £5,000. The loan was to be repaid over 24 months. It had an APR of 79.9% which meant that the total amount payable was £8,811.36.

Mrs M says that shortly after she took the loan out, she realised it was unaffordable. She requested a settlement figure 19 days after taking out the loan and was shocked to be told that she would need to pay £633 in interest.

Mrs M complained to Madison. She didn't think it had given her clear information about the interest it would charge for settling the loan early. Madison said the settlement figure it had given Mrs M was correct. It was in line with the terms of her agreement and with the relevant legislation. It said the full settlement figure included 58 days' interest that was applicable when settling the loan early and this was covered in the loan documents.

Mrs M remained unhappy, so she brought her complaint to our service. She said she was also complaining that the loan was unaffordable. She said that if Madison had done proper checks it would have seen that she had gambling transactions and the loan was unaffordable. She said that as a result, she'd had to apply for an alternative loan to pay this one off which had put her in a worse situation.

Our investigator looked into Mrs M's concerns and didn't think her complaint should be upheld. He was satisfied that Madison had given Mrs M clear information about the early settlement terms. He didn't think the figure Madison had given Mrs M was incorrect. Our investigator also didn't think Madison's lending decision was irresponsible.

Mrs M disagreed with our investigator's view. She said she'd had to borrow more money to settle the loan as the interest and monthly instalments were causing her financial hardship. She didn't think Madison's checks were sufficient as it hadn't seen her gambling transactions. She also didn't agree that Madison had made it clear that she would be charged 58 days' worth of interest.

Mrs M said she'd had to take out payday loans to pay the £633 interest. She said Madison's actions had forced her into a debt management plan and had also had a negative impact on her mental health.

So, the complaint has been passed 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.

Having done so, I've decided not to uphold Mrs M's complaint. I'll explain why.

### Early settlement

I've reviewed the documents Mrs M was provided with when she applied for the loan online. The loan agreement clearly sets out the amount of credit, the duration of the loan, the total charge for credit, the total amount payable and the APR of 79.9%.

It shows that the "*total charge for credit*" on the £5,000 loan was £3,811.36 resulting in a "*total amount payable*" of £8,811.36.

The loan agreement also says what would happen in the event of "*early repayment*" and includes the wording:

*"If You notify Us of Your intention to repay in full early, We will provide You with a settlement amount quotation which is valid for 28 days beginning with the day after the day on which We receive Your notice. We may charge You interest on the amount that You pay early. The amount of interest We may charge You will be up to 28 days' interest unless Your loan term is for a period of more than 12 months, in which case We may charge You up to 58 days' interest on the amount that You repay early."*

From what both parties have said, I understand Mrs M asked Madison for a settlement figure 19 days after she took out the loan. This was before any payments were due.

Madison has calculated the settlement figure as follows:

£8,811.36 (amount repayable) - £3,177.99 = £5,633.37.

Madison says the settlement figure took into account the 58 days' interest that was applicable when settling the account early.

Mrs M says the wording on the agreement was unclear because it says: "*We **may** charge You up to 58 days' interest...*" rather than "*We **will** charge You up to 58 days' interest...*". She says her understanding was that Madison couldn't possibly charge her more interest than the 19 days she'd had the loan for.

While the term says Madison "*may*" apply the interest, I'm not persuaded that it precludes them from applying it. Rather it allows Madison to exercise discretion not to apply it if it thinks it's appropriate in the circumstances. I think the wording in the agreement is sufficiently clear that Madison could charge 58 days' interest on the amount that was being repaid early. So, I can't say it was unfair for Madison to have applied this interest.

I appreciate that Mrs M wasn't expecting to pay so much interest on a loan she'd had for only a few weeks. But the settlement figure appears to have been calculated correctly and in line with the agreement signed by Mrs M.

### Lending decision

The relevant rules, regulations and guidance required Madison to carry out reasonable and proportionate checks to ensure Mrs M could afford to repay the loan in a sustainable manner.

The checks needed to be borrower-focused. It wasn't enough for Madison to think only about the likelihood of getting its money back. It also had to ensure that making the repayments wouldn't cause Mrs M undue difficulty or have adverse consequences for her.

There isn't a set list of checks that lenders need to carry out, but they should be proportionate, taking a number of factors into consideration. These factors include the amount, type and cost of the credit as well as the personal circumstances of the consumer.

Madison gathered information from Mrs M before it agreed the loan and also checked her credit file. On her application, Mrs M said she was taking out the loan to "*consolidate borrowing*". She said her income was £3,419 a month. She was a homeowner with a mortgage of £639 a month. She said her unsecured credit was £1,392 a month and her other outgoings were £721.41 a month.

Madison has provided a copy of Mrs M's credit report which shows she had a joint mortgage with repayments of £1,278 a month. I think it was reasonable for Madison to have used the figure of £639 Mrs M had given on her application in its affordability calculation as this was half of the full amount of her joint mortgage.

The credit report suggested that Mrs M's credit commitments were higher than what she'd specified on the application form. I think this was because a loan Mrs M had settled a couple of weeks before was still showing on there. The monthly repayment for this was £798. The credit report showed Mrs M was committed to repayments of £53 a month for another loan and £221 a month for a hire purchase agreement. She had a credit card balance of £5,294 and an overdraft of £1,854.

After taking into account Mrs M's existing credit commitments (including the loan she'd already paid off), the outgoings declared on her application and the repayments for the Madison loan (£367.14), Mrs M would have been left with a disposable income of around £300 a month. So, even without taking into consideration, Mrs M's intention to use the loan to consolidate some of her existing debt, I think it was reasonable for Madison to have concluded the lending was affordable.

There's nothing else on Mrs M's credit file that I think should have given Madison cause for concern. She appeared to be up to date with her repayments on her other commitments, and there were no recent defaults or county court judgments.

I appreciate Mrs M feels that if Madison had done more thorough checks, it would have seen she'd made gambling transactions. But Madison could only make its decision based on information it had available at the time. And I don't think proportionate checks would have extended to Madison asking Mrs M to provide it with her bank statements.

I know my answer will be disappointing for Mrs M. But having considered everything, I think Madison's checks were reasonable and proportionate in the circumstances. And these suggested the loan was affordable. So, I don't think Madison acted irresponsibly when it granted Mrs M the loan.

### **My final decision**

For the reasons I've explained, I don't uphold Mrs M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 22 April 2022.

Anne Muscroft  
**Ombudsman**