

The complaint

Mr S says Madison CF UK Limited (trading as 118 118 Money) lent to him irresponsibly.

What happened

Mr S took out a 24-month instalment loan for £3,000 from 118 118 Money on 10 June 2020. The monthly repayment was £214.90 and the total repayable was £5,157.60.

Mr S says he was sold a loan he could not afford, and no questions were asked about his expenditure.

The adjudicator said the complaint should not be upheld. He thought the checks 118 118 Money carried out were proportionate and showed that the loan would be affordable for Mr S.

Mr S disagreed, he said he was asked no questions about his expenditure. He asked for an ombudsman's review so the case was passed to me to make a decision.

I reached a different conclusion to the adjudicator and so I issued a provisional decision - an extract follows and forms part of this final decision. I asked for any comments or new evidence by 9 February 2022.

Extract from my provisional decision

I can see 118 118 Money asked for some information from Mr S before it approved the loan. It asked for his monthly income and completed income verification with a third party. It says it asked for monthly expenditure and would have revised this based on national averages. I note Mr S disputes providing any information on his monthly costs but because of my overall conclusion I need not make a finding on this point. The lender also checked Mr S's credit file to understand his existing monthly credit commitments and credit history. From these checks combined 118 118 Money concluded Mr S had sufficient disposable income to afford the loan.

Our investigator found 118 118 Money wasn't wrong to lend to Mr S saying its checks showed Mr S had sufficient disposable income to take on the additional financial commitment. I have reached a different conclusion. I'll explain why.

I don't think 118 118 Money's checks were reasonable or proportionate. 118 118 Money carried out a credit search as part of its checks. This showed Mr S had £4,034 of unsecured debt across 9 active accounts. These were all up-to-date. So at first look he didn't appear to be heavily indebted or failing to manage his existing commitments. There were a number of defaults, but these were settled and predominantly from 2015.

However, the search also showed that Mr S had taken out at least 29 short-term (most likely high-cost payday) loans in the previous 24 months. Arguably that could in itself have led 118 118 Money to decline the application, but at the very least the lender should have reacted to that information and completed a fuller financial review to get the assurance it needed that

its loan would be sustainably affordable for Mr S.

I have looked at copies of Mr S's bank statements for the three months prior to his application to understand what better checks would most likely have shown 118 118 Money. I am not saying the lender had to do this, but it's one way it could have better understood Mr S's financial situation. The statements show it is clear Mr S did not have the disposable income the lender calculated. Whilst his monthly income was as he declared (on average £1961.29) he was persistently reliant on his overdraft to cover all his living costs and existing credit commitments. Even on payday he remained overdrawn each month. He also had a high-cost line of revolving credit and had used a buy-now-pay later option to purchase goods. So I think if 118 118 Money had carried out better checks it would have realised Mr S finances were under pressure.

Mr S was having problems managing his money when he applied and given the 29 loans in the last two years it seems he he'd been trapped in a harmful debt cycle for some time. I think there was a clear risk the loan would be unsustainably affordable for Mr S. It seems he would most likely fund the repayments from other borrowing such as his overdraft or short-term loans. There is no evidence 118 118 Money asked about the purpose of the loan to know whether Mr S intended to clear any of his existing debt with it.

It follows I currently think 118 118 Money was wrong to lend to Mr S.

I then set out what 118 118 Money would need to do to put things right if I upheld Mr S's complaint.

Mr S responded to my provisional decision before the deadline saying he had nothing further to add. 118 118 Money did not respond.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

As neither party provided any new information or evidence in response to my provisional decision, it follows I have no reason to change the findings or outcome I set out in it.

I find 118 118 Money was wrong to give the loan to Mr S.

Putting things right

I think it is fair and reasonable for Mr S to repay the capital that he borrowed because he had the benefit of that money. But he has paid interest and charges on a loan that shouldn't have been provided to him.

So 118 118 Money must:

- Remove all interest, fees and charges from the loan and treat all the payments Mr S made as payments towards the capital.
- If this results in him having effectively made payments above the original capital borrowed, then 118 118 Money should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.

- If this results in there being an outstanding capital balance the parties should work together to agree a repayment plan that is affordable for Mr S.
- Remove any adverse information recorded on Mr S's credit file in relation to the loan.

*HM Revenue & Customs requires 118 118 Money to deduct tax from this interest. 118 118 Money should give Mr S a certificate showing how much tax it's deducted, if he asks for one.

My final decision

I am upholding Mr S's complaint. Madison CF UK Limited (trading as 118 118 Money) must put things right as set out above

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 11 March 2022.

Rebecca Connelley
Ombudsman