

## The complaint

Miss M complains that Madison CF UK Limited trading as 118118 Money ("MCF") lent to her in an irresponsible manner.

## What happened

I issued a provisional decision on this complaint in January 2022. In that decision I explained why I thought that the complaint should be upheld. Both parties have received a copy of the provisional decision but, for completeness, I include some extracts from it below. In my decision I said;

*Miss M was given a loan by MCF in October 2019. She borrowed £3,500 and agreed to repay the loan in 24 monthly instalments. Miss M says that she has recently repaid the loan.*

*MCF gathered some information from Miss M before it agreed the loan. It asked her for details of her income, and her normal expenditure. It then used some statistical analysis and some further checks to revise Miss M's declared disposable income. And it checked her credit file to see how much she was paying to other lenders, and how she'd managed credit in the past.*

*Miss M was entering into a significant commitment with MCF. She would need to make monthly repayments for a period of two years. So I think it was right that MCF wanted to gather, and independently check, some detailed information about Miss M's financial circumstances before it agreed to lend to her. I think that the checks I've described above were sufficient to achieve that aim – I think that MCF's checks were proportionate.*

*But simply performing proportionate checks isn't always enough. A lender also needs to react appropriately to the information shown by those checks. Those results might sometimes lead a lender to undertake further enquiries into a consumer's financial situation. Or, in some cases, the results might lead a lender to decline a loan application outright. And that is what I think should have happened in this case.*

*As I have said earlier, MCF revised the amount of disposable income that Miss M declared. Its initial checks suggested that she was earning much less than she'd said. And it thought her expenditure was likely to be far higher. Overall MCF reduced Miss M's disposable income by over £900 to just 30% of what she'd declared. I think the need for such a large reduction should have put MCF on notice that all might not be well with Miss M's finances.*

*MCF's credit check showed that Miss M had faced some problems with her finances around five years before. In 2014 she had defaulted on two large loans with total values of over £30,000. I can see that in the intervening years Miss M had repaid much of that debt, with only a small balance outstanding on one of the loans. But experience suggests that consumers who have faced problems managing their money in the past, are more likely to face similar problems in the future.*

*And the more recent activity on Miss M's credit file suggested that those similar problems might be starting to reoccur. It is true that the credit check suggested that Miss M was generally meeting her credit obligations as they became due. She had been behind on her mortgage payments for a couple of months around a year before, but otherwise her repayments were made on time. But the pattern of her recent borrowing should have caused concerns to MCF.*

*Miss M had four active credit card accounts. And each of those accounts was approaching its agreed credit limit – limits that had a total value of £7,4000. Two of the credit card accounts had been opened in the past three months. And of even greater concern was that the large balances on the other two accounts had also arisen in the same timeframe. That is indicative of someone that was facing increasing pressure on their finances. And since a part of those balances appeared to have arisen from cash withdrawals, that might also suggest that Miss M was needing to use credit to meet her other day to day living costs, or her repayments on her mortgage.*

*I think that what I've described above are sufficient reasons for MCF to have declined Miss M's application for the loan. But at the very least I think the results of the checks should have caused MCF to gather more detailed information about what was happening with Miss M's finances. So I've looked at Miss M's bank statements, and what she's told us about her financial situation, to see what better checks would have shown MCF.*

*At this stage I want to be clear that I am not suggesting that this is the exact check that MCF should have carried out. I do think, at the very least, that MCF needed further evidence about what was happening with Miss M's finances. And looking at her bank statements is one way of achieving that although there are of course many other ways that level of detail could be established. But I think that by looking at Miss M's bank statements I can get a good idea of what better checks might have shown.*

*I've looked at Miss M's bank statements for the three months before the loan was agreed. Those bank statements don't show that Miss M had a stable form of income. I can see that in one month she received income from an employment agency. The next month she received income from what seems to be a tourist attraction and a hotel. And only in the final month did she receive income from the employer she'd declared to MCF. On average her income over those three months was just over £2,000 rather than the £2,900 she'd declared*

*I can see that Miss M's application did say that she had been with her employer for zero months. So that might explain why she'd not received income from there in the past. But I think there was a realistic risk that either the income MCF would have seen was inflated, due to for example a tax refund being paid, or that Miss M's employment was short term, or that she was in a probationary period. I don't think MCF could have any confidence about Miss M's income remaining at that level for the following two years.*

*So overall I don't currently think MCF should have given the loan to Miss M. I think that the results of its initial checks should have led the lender to decline her application. But even if it had simply undertaken further, more detailed checks, I think they too should have led to the loan being refused. So I currently think that Miss M's complaint should be upheld and that MCF needs to pay her some compensation.*

I invited both parties to provide us with any further comments or evidence in response to my provisional decision. Miss M has said she accepts, and agrees with, my provisional decision. MCF hasn't provided us with anything further.

### **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.

Given that neither party has provided me with any new evidence or further comments I see no reason to alter the conclusions I reached in my provisional decision. So I don't think MCF should have given the loan to Miss M. I think that the results of its initial checks should have led the lender to decline her application. But even if it had simply undertaken further, more detailed checks, I think they too should have led to the loan being refused. So I think that Miss M's complaint should be upheld and that MCF needs to pay her some compensation.

### **Putting things right**

I don't think MCF should have agreed to lend to Miss M in October 2019. So MCF should;

- refund all the interest and charges Miss M paid on the loan
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†
- remove any adverse information recorded on Miss M's credit file in relation to the loan

† HM Revenue & Customs requires MCF to take off tax from this interest. MCF must give Miss M a certificate showing how much tax it's taken off if she asks for one.

### **My final decision**

My final decision is that I uphold Miss M's complaint and direct Madison CF UK Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 21 March 2022.

Paul Reilly  
**Ombudsman**