

The complaint

Mrs M has complained that Madison CF UK Limited trading as 118 118 Money was irresponsible in lending to her. She's also unhappy with the way it responded to her request for a payment freeze.

What happened

In June 2019 118 118 Money provided Mrs M with a loan of £2,000 repayable over 24 months with a monthly repayment of £117.48. The total amount repayable was £2,819.52. She said the purpose of the loan was to buy a car.

In December 2020 118 118 Money rescheduled the loan to give Mrs M a payment freeze of two months. After that she had to make ten monthly payments of £130.12. The loan was repaid in April 2021.

Mrs M complained that 118 118 Money hadn't properly checked she could afford the original loan. She said at the time she applied for the loan, she already had a number of debts, had three active credit cards and regularly missed payments, resulting in her having to enter into payment plans for two of them. She's also unhappy that when she told 118 118 Money she was having difficulty making repayments, it only offered her a payment freeze, meaning she'd have to pay additional interest.

118 118 Money looked into her complaint and didn't uphold it. It said it had carried out proper checks and it thought the loan repayments were sustainable. Mrs M referred her complaint to us.

I issued a provisional decision explaining why I was minded to uphold the complaint in part. An extract from my provisional findings is set out below:

"We've set out our general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website.

Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Mrs M's complaint. These two questions are:

- 1. Did 118 118 Money complete reasonable and proportionate checks to satisfy itself that Mrs M would be able to repay the loan without experiencing significant adverse consequences?*
 - If so, did it make a fair lending decision?*
 - If not, would those checks have shown that Mrs M would've been able to do so?*
- 2. Did 118 118 Money act unfairly or unreasonably in some other way?*

The rules and regulations in place required 118 118 Money to carry out a reasonable and proportionate assessment of Mrs M's ability to make the repayments under this agreement.

This assessment is sometimes referred to as an “affordability assessment” or “affordability check”.

The checks had to be “borrower-focussed” – so 118 118 Money had to think about whether repaying the loan would be sustainable. In practice this meant that the business had to ensure that making the repayments on the loan wouldn’t cause Mrs M undue difficulty or significant adverse consequences. That means she should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment she had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on her financial situation.

In other words, it wasn’t enough for 118 118 Money to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mrs M. Checks also had to be “proportionate” to the specific circumstances of the loan application.

In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower a consumer’s income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);*
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);*
- the greater the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).*

I’ve carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mrs M’s complaint.

Before granting the loan, 118 118 Money carried out a credit search and verified Mrs M’s income online. The credit search showed that Mrs M had 14 active credit accounts, 6 of which had been opened in the previous 6 months. One of those accounts was a credit card account also with 118 118 Money. There’d been 6 credit searches on her in the past 3 months and 16 searches in the past 12 months. The total amount she owed was £5,045. She’d had one county court judgment which had been satisfied the previous year. There were no missed payments or defaults.

118 118 Money said it asked Mrs M a number of questions about her income and expenditure. However, in terms of expenditure, I haven’t seen what information 118 118 Money had about Mrs M’s usual living expenses (other than credit commitments). By that I mean, I can’t see what questions were asked, or information gathered, on things like Mrs M’s rent, utility bills or monthly travel costs. Or that 118 118 Money looked to check Mrs M would be left with sufficient funds after all of her commitments, including this potential loan repayment, for any unexpected expenses. So in the absence of this information, I can’t see how 118 118 Money could have been satisfied Mrs M would be able to repay the loan sustainably.

In the light of this I next need to consider whether reasonable and proportionate checks would have shown the loan could be repaid sustainably. With this in mind, I’ve looked at

what I think proportionate checks would likely have shown. I appreciate that different checks show different things, and proportionate checks might not have extended to 118 118 Money looking at bank statements. But, in the absence of anything else, I've reviewed these to get an idea of what 118 118 Money would probably have discovered if it had asked Mrs M some questions about her expenditure.

The bank statements for the month before Mrs M took out the loan show that she'd taken out two loans for £500 and £750 respectively at the end of May 2019. Even with these two loans she still ended the month with less in her account than at the start. She didn't have an overdraft facility. If she hadn't taken out these loans, there was a risk that some of her payments would have failed. This suggests to me that Mrs M was at that time struggling to manage her finances and was applying for short-term credit to repay her other credit commitments. If 118 118 Money had carried out proportionate checks, I think it is more likely than not that it would have uncovered this and then not lent to Mrs M. So I'm not persuaded that 118 118 Money acted fairly in lending to Mrs M.

I'm sorry that Mrs M has found it hard to keep up the monthly repayments on the original loan. At my request, 118 118 Money has sent us its records showing what happened when Mrs M contacted it requesting a payment freeze. I've also listened to a recording of a call in which Mrs M discussed the payment freeze with 118 118 Money. She explained that her earnings had temporarily dropped due to her having to self-isolate during the pandemic. She said she'd be able to continue with her repayments when she returned to work in November 2020.

118 118 Money asked her various questions to check that her change in circumstances was only temporary. It also explained that a payment freeze would mean she'd have to enter into a new loan agreement and pay more interest in the long run. Mrs M said she was happy with that. I can't fairly say that 118 118 Money didn't respond positively and sympathetically when Mrs M reported payment problems. Since it had no reason to suspect Mrs M was in serious financial difficulties, I don't think it treated her unfairly in this respect."

118 118 Money accepted my provisional decision. Mrs M's representative said they had no further comments.

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.

As neither party has objected to my provisional findings, I see no reason to change them and they now form part of this final decision.

Putting things right

I think it is fair and reasonable for Mrs M to repay the principal amount that she borrowed because she has had the benefit of that lending. But as I have concluded 118 118 Money shouldn't have provided the loans, it should look to remove the interest and fees from the principal amount.

118 118 Money should:

- refund all interest, fees and charges on the loans;
- pay interest* of 8% simple a year on any refunded interest, fees and charges from the date they were paid (if they were) to the date of settlement; and
- remove any negative information about the loans from Mrs M's credit file.

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

My final decision

For the reasons given above, I uphold Mrs M's complaint and require Madison CF UK Limited trading as 118 118 Money to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 29 March 2022.

Elizabeth Grant
Ombudsman