

The complaint

Mr K says Madison CF UK Limited, trading as 118 118 Money, lent to him irresponsibly.

What happened

Mr K took out two instalment loans from 118 118 Money. A summary of his borrowing follows. Both loans have been settled, loan 1 by loan 2.

loan	taken out	value, £	term in months	monthly repayment, £	total repayable, £
1	24/10/2018	2,000	18	169.03	3,042.54
2	10/06/2019	2,658.07	18	229.96	4,139.28

Mr K says the loans were unaffordable and should never have been given.

Our adjudicator found that 118 118 Money's checks were not proportionate given what it saw on the credit checks it completed. She said it should have gone on to complete a fuller financial review. However, as Mr K was unable to provide copies of his bank statements from the months prior to the time of each application she could not know what better checks would most likely have shown the lender. And so she was unable to uphold Mr K's complaint.

Mr K asked for an ombudsman's review. He said his credit reports show he was struggling financially. He asked why his failure to provide bank statements now impacts the outcome given 118 118 Money didn't asked for them at the time – it's clear its checks were not good enough.

I reached a different conclusion to the adjudicator and planned to uphold Mr K's complaint in part. So I issued a provisional decision – an extract follows and forms part of this final decision. I asked both parties to send any comment or new information by 29 March 2022. Mr K and 118 118 Money responded before this deadline allowing me to reach a final decision now.

Extract from my provisional decision

I can see 118 118 Money asked for some information from Mr K before it approved the loans. It asked for details of his monthly income and his monthly expenditure. It says it checked these against reasonable average figures – but it hasn't made clear if this meant it amended what Mr K had declared. It asked about his residential status and whether he had dependents. It asked about the purpose of the loans which was 'other' for loan 1 and 'unknown' for loan 2. It also checked Mr K's credit file to understand his credit history and current commitments. From these checks combined 118 118 Money concluded Mr K had enough monthly disposable income to afford to repay the loans.

I don't think these checks were proportionate for loan 1. Based on the information it initially

gathered I think 118 118 Money should have carried out a fuller financial review before agreeing to lend. And whilst they weren't proportionate for loan 2 either, I think even based on the information gathered 118 118 Money did not make a fair lending decision for loan 2. I'll explain why.

Loan 1

118 118 Money knew from the credit check that Mr K already had around £26,700 in unsecured debt across 12 accounts. Whilst he was up-to-date on all his repayments, I think the lender ought to have better checked increasing his debt would be sustainable. The lender's calculations show Mr K had disposable income of £937 so he may have been able to manage that level of debt without any detriment – but its calculation was not based on verified actuals. In these circumstances, I think it ought to have taken steps to validate Mr K's declared income and to understand his actual monthly expenditure.

This means I need to look at what better checks would most likely have shown the lender. Unfortunately, I currently have no way to do this. Mr K has not provided bank statements to date, explaining he no longer has the current account he used in 2018. But the bank may still be able to provide copies of the statements. He asks why we need them given 118 118 Money failed to check them at the time – but this is the reason why. They allow me to see what better checks would most likely have shown the lender and so conclude whether, or not, it made a fair lending decision. Mr K argues his credit report shows he was struggling – but the only adverse information was historic: two credit card defaults in 2013 that had been settled by 2015. So I don't agree the lender should have automatically declined his application at this stage, rather it should have carried out further checks.

I will of course review any further information Mr K can provide, but currently I can't fairly conclude 118 118 Money was wrong to give loan 1 to Mr K.

Loan 2

Mr K applied for a top-up loan seven months later. He received £1,200 and the balance was used to repay loan 1. This time the credit check 118 118 Money completed showed Mr K's total unsecured debt level had marginally increased to £26,995. But more critically, it showed he had taken out a credit card, three loans and opened a mail order account in the last seven months. I think this ought to have suggested to 118 118 Money that Mr K's finances were most likely under pressure and he did not have the level of disposable income it had calculated. And even without further checks I think it ought to have declined Mr K's application given it would have been his seventh new line of credit in as many months.

I think it was most likely he was trapped in a cycle of borrowing to repay other debts, and therefore the loan would not be sustainably affordable. I anticipate 118 118 Money might argue that this cannot be known for certain without sight of Mr K's bank statements. But I have made this finding based on the balance of probabilities, in other words what I think is most likely given the available evidence and the wider circumstances. This was Mr K's second loan with 118 118 Money in a short period of time and I think it unfairly extended and prolonged his reliance on high-cost credit.

It follows I think 118 118 Money was wrong to give loan 2 to Mr K.

I have not seen any evidence that 118 118 Money acted unfairly or unreasonably towards Mr K in some other way.

I then set out what 118 118 Money would have to do to put things right if I went on to uphold the complaint in part.

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.

Mr K and 118 118 Money both replied to my provisional decision, accepting the findings and outcome. It follows I have no reason to comment further and I find 118 118 Money was wrong to give loan 2 to Mr K for the reasons set out above.

Putting things right

It's reasonable for Mr K to have repaid the capital amount that he borrowed as he had the benefit of that money. But he has paid interest and charges on a loan (loan 2) that shouldn't have been given to him. So he has lost out and 118 118 Money needs to put things right.

It should:

- Remove all interest, fees and charges on loan 2 and treat all the payments Mr K made as payments towards the capital.
- If reworking Mr K's second loan account 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*.
- Remove any adverse information recorded on Mr K's credit file in relation loan 2.

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

My final decision

I am upholding Mr K's complaint in relation to loan 2. 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 K to accept or reject my decision before 4 April 2022.

Rebecca Connelley
Ombudsman