

The complaint

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

What happened

Mr T took out a 12-month instalment loan for £1,000 from 118 118 Money on 12 August 2020. The monthly repayment was £100.22 and the total repayable was £1,202.64.

Mr T says he wasn't asked to evidence his outgoings, or how much would be affordable for him each month and he has struggled to make the repayments. This has put a strain on his mental health and caused money problems.

Our adjudicator said Mr T's complaint should be upheld. He thought 118 118 Money's checks were proportionate, but they showed Mr T already had 15 credit accounts with balances and was spending more than 25% of his income to service this debt. He said this indicated Mr T was struggling to manage his money and so 118 118 Money was wrong to lend to Mr T.

118 118 Money disagreed. It said that whilst Mr T needed to spend over 25% of his income each month on his credit commitments, he would still have over £700 of disposable income and so it maintains the loan was affordable.

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.

The rules and regulations when 118 118 Money lent to Mr T required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This is sometimes referred to as an affordability assessment or an affordability check.

The checks also had to be borrower-focused. So 118 118 Money had to think about whether repaying the credit sustainably would cause any difficulties or adverse consequences for Mr T. 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 repayments on Mr T.

Checks also had to be proportionate to the specific circumstances of each loan application. In general, what makes up 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 and cost of credit they have applied for.

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

- the lower a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the longer the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether 118 118 Money did what it needed to before agreeing to lend to Mr T. So to reach my conclusion I have considered the following questions:

- did 118 118 Money complete reasonable and proportionate checks when assessing Mr T's loan application to satisfy itself that he would be able to repay the loan in a sustainable way?
- if not, what would reasonable and proportionate checks have shown?
- did 118 118 Money make fair lending decisions?
- did 118 118 Money act unfairly or unreasonably in some other way?

I can see 118 118 Money asked for some information from Mr T before it approved the loan. 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 T had declared. It asked about his residential status and whether he had dependents. It asked about the purpose of the loan which was debt consolidation. It also checked Mr T's credit file to understand his credit history and current commitments. From these checks combined 118 118 Money concluded Mr T had enough monthly disposable income to afford to repay the loan.

I think these checks were proportionate given the term and value of the loan and its monthly repayments. But I am not persuaded the lender made a fair lending decision based on the information it gathered. It could see from the credit check it completed that Mr T already had 21 active accounts and was spending around £820 each month on these credit commitments. Giving this loan increased the amount of his income Mr T would need to spend to service his debt to almost a third. I think 118 118 Money ought to have realised this meant there was a risk Mr T would not be able to sustainably repay his loan – that is, without needing to borrow to repay or without suffering some other adverse financial consequence. I note he went on to have problems making his repayments only four months into the term of the loan.

118 118 Money argues that Mr T would still have over £700 disposable income. But I don't think that negates its need to consider that Mr T's credit file showed he had a high number of relatively low value credit accounts, often opened one month after the other, suggesting he was most likely in a cycle of borrowing to repay. And in these circumstances I don't think it was responsible to further extend Mr T's indebtedness. I do note the purpose of the loan was debt consolidation, but 118 118 Money hasn't shown that it asked which debts Mr T was going to settle.

It follows I think 118 118 Money was wrong to give this loan to Mr T. I haven't seen any evidence 118 118 Money acted unfairly or unreasonably in some other way towards Mr T.

Putting things right

It's reasonable for Mr T 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 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 the loan and treat all the payments Mr T made as payments towards the capital.
- If reworking Mr T's 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 T'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 T a certificate showing how much tax it's deducted, if he asks for one.

My final decision

I am upholding Mr T'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 T to accept or reject my decision before 18 May 2022.

Rebecca Connelley
Ombudsman