

## The complaint

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

## What happened

Mr A took out two instalment loans from 118 118 Money. A summary of his borrowing follows. Loan 2 repaid loan 1 in part.

loan	taken out	value, £	term in months	monthly repayment, £	total repayable, £
1	31/10/2014	2,000	18	183.14	3,296.52
2	19/12/2015	2,810	24	214.54	5,148.96

Mr A says he took out the loans to repay payday loans and to cover arrears on housing commitments. He was already under financial stress and it has impacted his mental health.

Our adjudicator said Mr A's complaint should be upheld. She didn't think the lender's checks were proportionate and better checks would have shown both loans were unlikely to be sustainably affordable for Mr A.

118 118 Money disagreed. It said its checks showed the loans to be affordable and there was nothing in the information it gathered that triggered the need for additional checks. It asked for an ombudsman's review so the complaint was passed to me.

I reached a different conclusion to the adjudicator and planned to uphold Mr A'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 submit any comments or new evidence before 10 March 2022.

### *Extract from my provisional decision*

*I can see 118 118 Money asked for some information from Mr A before it approved both loans. It asked for his monthly income and says it completed income verification with a third party. It hasn't clarified if this check supported what he had declared. It asked for his monthly expenditure and says it would have sense checked this using reasonable averages. It has not said if this meant it revised what Mr A had declared. The lender also checked Mr A's credit file at the time of both applications to understand his existing monthly credit commitments and credit history. From these checks combined 118 118 Money concluded Mr A had sufficient disposable income to afford the loans.*

*I think these checks were proportionate for loan 1, but not for loan 2. I will explain why, and the implications of this finding.*

### *Loan 1*

*Mr A declared monthly income of £2,000 and total expenditure of £1,383. This was Mr A's first application to 118 118 Money and the credit check it carried out showed Mr A had a low level of debt (£785). He had three active accounts and hadn't opened any new accounts in the previous six months. He was up-to-date on a loan that he had taken out in May 2014. He had an overdraft facility on his current account, but was not using it. He had defaulted on an account, but this was some time ago in April 2011 and on a low balance of £39 – so I don't find that it indicated Mr A was struggling financially when he applied.*

*Based on these results, the fact the monthly repayments for loan 1 were less than 10% of Mr A's declared income and the term and value of the loan, I can't see anything that ought to have alerted 118 118 Money to carry out further checks. And based on the information it gathered I haven't seen anything that I think ought to have led 118 118 Money to conclude the loan would not be sustainably affordable for Mr A. Unlike the adjudicator, for the reasons set out above, I don't think it would have been proportionate for the lender to have carried out the level of checks needed to discover that lending to Mr A may not be sustainable for him.*

*It follows I find it made a fair lending decision.*

## *Loan 2*

*Mr A returned to increase his borrowing prior to repaying loan 1. He was asking to increase the value of his debt and the term over which he would repay it. So I think at this stage 118 118 Money should have carried out a fuller financial review, and not relied on Mr A's declaration and/or reasonable averages for some of the key data, like living expenses. I accept, as 118 118 Money has flagged, that Mr A's credit check still showed he had a relatively low level of debt (£2,539). But he had two more active accounts than when he applied for loan 1, a credit card with a high utilisation and he had taken out cash advances out on credit – at times an indicator of financial difficulties. To be clear, I am not saying the results of the credit check in isolation should have led 118 118 Money to decline Mr A, rather in the circumstances of his application they ought to have led it to carry out further checks.*

*I have looked at Mr A's bank statements in the months before Mr A applied to get an idea of what better checks would most likely have shown 118 118 Money. I am not saying it had to do this but it's a way for me to understand his financial situation at the time. Mr A supplied statements from January to early November 2015. I have relied primarily on the full month closest to his application (October) but have referenced other months to check the transactions were representative of his typical monthly incomings and outgoings.*

*Mr A's monthly income varied significantly and was lower than he had declared by on average £800 across the first ten months of 2015. His recent essential living costs in the month were higher than he declared by around £230. He was also repaying around £190 a month to two high-cost short-term lenders that did not appear on his credit file. Whilst this loan was settling the outstanding balance on loan 1, there was no evidence Mr A planned to use the remainder to repay any other debts – the purpose captured at application was 'other' not 'debt consolidation'.*

*In the round this means Mr A did not have the disposable income 118 118 Money had calculated and he could not afford the loan. There was already evidence that Mr A was having problems managing his money with the two payday loans and each month there were returned direct debts that incurred unpaid transactions fees. So I find loan 2 would not have been sustainably affordable for Mr A, and had 118 118 Money carried out better checks I think it would have realised this.*

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

*I haven't found any evidence 118 118 Money acted unfairly or unreasonably in some other way towards Mr A.*

I then set out what 118 118 Money would have to do if I upheld Mr A's complaint in part.

Both 118 118 Money and Mr A responded to my provisional decision before the deadline allowing me to issue this final decision today.

### **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.

In their responses to my provisional decision both Mr A and 118 118 Money accepted the findings and conclusion I set out. So I have no further comments to make and I find 118 118 Money was wrong to give loan 2 to Mr A.

### **Putting things right**

It is fair and reasonable for Mr A to repay the capital that he borrowed as part of loan 2 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 loan 2 and treat all the payments Mr A 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\*.
- Remove any adverse information recorded on Mr A's credit file in relation to loan 2.

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

### **My final decision**

I am upholding Mr A's complaint in part. 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 A to accept or reject my decision before 1 April 2022.

Rebecca Connelley  
**Ombudsman**