

The complaint

Mr M complained that Madison CF UK Limited trading as 118 118 Money irresponsibly provided him with unaffordable loans.

What happened

118 118 Money provided Mr M with loans as follows:

Loan	Date taken	Loan amount	Term	Monthly repayment	Date repaid
1	07/10/2018	£3,500	12 months	£411.85	15/02/2019
2	18/04/2019	£2,400	18 months	£226.92	19/08/2019
3	10/12/2019	£1,200	12 months	£140.53	27/05/2020

When Mr M complained to 118 118 Money it didn't agree it had done anything wrong so he brought his complaint to this Service.

Our adjudicator didn't think she'd seen enough to be able to uphold Mr M's complaint about any of the loans 118 118 Money had provided.

Mr M disagreed and he asked for an ombudsman to review the case so the complaint came to me to decide. I issued a provisional decision.

What I said in my provisional decision

Here are some of the main things I said.

"There are some general principles I will keep in mind and questions I need to think about when deciding whether to uphold Mr M's complaint. Before agreeing to lend, lenders must work out if a borrower can afford the loan repayments alongside other reasonable expenses the borrower also has to pay. This should include more than just checking that the loan payments look affordable on a strict pounds and pence calculation. A lender must take reasonable steps to satisfy itself that the borrower can sustainably repay the loan – in other words, without needing to borrow elsewhere.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. For example, when thinking about what a borrower has left to spend on a new loan after paying other expenses, as well as taking into account the loan amount, the cost of the repayments and how long the loan is for, a proportionate check might mean a lender should also find out the borrower's credit history and/or take further steps to verify the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if a loan would've been approved if the checks had been done. If proportionate checks were done and a loan looked affordable, a lender still needed to think about whether there

was any other reason why it would be irresponsible or unfair to lend. For example, if the lender should've realised that the loan was likely to lead to more money problems for a borrower already struggling with debt that can't be repaid in a sustainable way.

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 (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).*

Bearing all of this in mind, in coming to a decision on Mr M's case, I have considered the following questions:

- Did 118 118 Money complete reasonable and proportionate checks when assessing Mr M's loan application to satisfy itself that he would be able to repay the loan in a sustainable way? If so, did 118 118 Money then make a fair lending decision?*
- If not, what would reasonable and proportionate checks have shown?*
- Did 118 118 Money act unfairly or unreasonably in any other way?*

118 118 Money asked Mr M some questions about his income and did its own checks, which included obtaining information about his credit history.

For loan 1, 118 118 Money recorded a figure of £2,750 for Mr M's take home pay and told us it did its own background checks to verify this amount. Allowing for Mr M's declared accommodation and living costs (£450) and Mr M spending around £60 on insurance and £300 on his current credit commitments, 118 118 Money worked out that Mr M should have ample spare cash left in order to make the monthly repayments for this loan – bearing in mind he'd also told 118 118 Money that he would be using the loan to repay other outstanding debt.

118 118 Money could see that Mr M had a high level of debt and a recent track record of taking out loans. I think this was potentially worrying information, especially bearing in mind that Mr M was living with his parents and so he had only limited responsibility for meeting some of the usual household costs like rent or mortgage out of his take home pay. I think 118 118 Money should've realised that the information it had gathered looked to be at odds with what its credit checks showed.

To my mind, this should've alerted 118 118 Money to the risk that it couldn't safely rely on what Mr M had told it about how he spent his money. In these circumstances, it would have been reasonable and proportionate for 118 118 Money to have done more before lending to Mr M to ensure it had a proper understanding of his financial situation. So I can't fairly say that it carried out a proportionate check before agreeing to lend to Mr M.

But that isn't enough of a reason on its own for me to be able to uphold this complaint. I've seen nothing and haven't been provided with any information to suggest that further checks to verify what Mr M was saying would've shown that loan 1 wasn't sustainably affordable for him. And I can't see that Mr M gave 118 118 Money any indication that his finances were

causing him serious money problems during his application for loan 1. This leads me to conclude that I haven't seen enough to be able to uphold loan 1.

Mr M repaid loan 1 early and a couple of months later he applied for loan 2. His circumstances were broadly the same and the information 118 118 Money saw about his credit history and current levels of borrowing at the time again makes me think it should've realised it needed to more in-depth checks.

Although 118 118 Money didn't do any further checks, I've been able to look at bank statements from Mr M which I think give a useful insight into his overall financial situation at the time. I think it's fair to say that Mr M was making significant use of his overdraft but that he seemed to be well within his arranged overdraft limit. And overall, I haven't seen anything in the information available to me which shows 118 118 Money should have decided not to agree this loan had it done so.

Bearing in mind that this was a smaller loan than loan 1 and the monthly repayments would be significantly less, on balance I think our adjudicator was right to say there isn't enough evidence to be able to uphold Mr M's complaint that loan 2 wasn't sustainably affordable.

But I think things had changed by the time Mr M was applying for loan 3. Even though Mr M had repaid loan 2 early and loan 3 was the smallest amount he'd applied to borrow from this lender, I think there were some worrying signs that should've caused 118 118 Money to think more carefully about lending a third time to Mr M. His living arrangements were the same but he told 118 118 Money he was now spending a lot more on servicing his debt. And the credit checks that 118 118 Money obtained showed a substantial increase in the loan balance now outstanding and his total indebtedness.

I think this should've prompted the lender to do more in-depth checks because it didn't look like 118 118 Money had a proper understanding of Mr M's financial situation given the contradictions between what Mr M had said (or omitted to say), the amount of disposable income 118 118 Money thought he had and the record of borrowing its own credit checks revealed.

I think 118 118 Money needed to do more to understand why Mr M was still taking out so much credit and, in particular, whether it was a sign that he was facing problems managing his money.

Keeping in mind that 118 118 Money's checks needed to be borrower focused, I think it needed to do more to obtain a thorough understanding of Mr M's overall financial situation to be satisfied he could afford the loan.

To help me understand what proportionate checks would likely have shown I've looked at Mr M's bank statements from around this time.

I can see that, far from having the amount of disposable income left over each month that 118 118 Money had calculated, in reality Mr M was often struggling to keep his bank account in credit - despite loans worth more than £1,200 having been paid into his account the previous month. He was paying around £40 arranged overdraft fees each month and he seemed to be stuck at this level and making no inroads into repaying his overdraft.

His bank statements show that he was repaying expensive high cost loans taken out with multiple other lenders as well as servicing his other debts. By my reckoning, in the month or so running up to Mr M applying to 118 118 Money for this loan he had already paid more than £1,800 to other creditors. I think that this was such a significant proportion of Mr M's monthly income - around two thirds of his take home pay - that 118 118 Money couldn't

reasonably say that it was likely he would be able to repay its loan in a sustainable way on top of all his other credit commitments.

To sum up, I think a proportionate check would have shown that loan 3 wasn't sustainably affordable for Mr M and so 118 118 Money should've realised it was unfair to lend to him and it shouldn't have provided this loan.

The fact that Mr M was able to repay the loan early doesn't mean that he was able to do so in a way that was sustainable – so this doesn't affect my overall view.

As Mr M has been further indebted with a high amount of interest and charges on a loan that he shouldn't have been provided with, I'm satisfied that he has lost out as a result of what 118 118 Money did wrong. So, I think 118 118 Money needs to put things right.

I haven't seen enough to make me think that 118 118 Money acted unfairly or unreasonably towards Mr M some other way. So I'm not awarding any additional redress over and above what I've set out below."

What the parties said in response to my provisional decision

Both Mr M and 118 118 Money have confirmed they accept my provisional decision so I think it's reasonable for me to proceed with my review of this complaint.

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.

We've set out our approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding this complaint.

I'd like to thank both parties for all the information that has been provided about this matter and for responding to my provisional decision to confirm acceptance. As no further comments have been received in response to my provisional decision that change what I think about this case, I still think it's fair to partly uphold this complaint for the reasons I explained in my provisional decision.

Putting things right

In line with this Service's approach, Mr M shouldn't repay more than the capital amount he borrowed when he took out loan 3.

But he has had to pay extra for lending that shouldn't have been provided to him – which isn't fair or reasonable.

118 118 Money should do the following:

- add up the total amount of money Mr M received as a result of being given loan 3. The payments Mr M made should be deducted from this amount
- if this results in Mr M having paid more than he received, then any overpayments should be refunded along with 8% simple interest* (calculated from the date the overpayments were made until the date of settlement)
- if any capital balance remains outstanding, then 118 118 Money should attempt to arrange an affordable/suitable payment plan with Mr M.

- Whilst it's fair that Mr M's credit file is an accurate reflection of his financial history, it's unfair that he should be disadvantaged by any adverse information recorded about a loan that was unfairly provided. So 118 118 Money should remove any negative information recorded on Mr M's credit file regarding the loan.

*HM Revenue & Customs requires 118 118 Money to take off tax from this interest. 118 118 Money must give Mr M a certificate showing how much tax it takes off if he asks for one.

My final decision

I uphold Mr M's complaint about loan 3 and direct Madison CF UK Limited trading as 118 118 Money to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 4 April 2022.

Susan Webb
Ombudsman