

The complaint

Mrs L complained that Madison CF UK Limited trading as 118 118 Money lent to her irresponsibly and provided her with an unaffordable loan.

What happened

Mrs L was given a loan by 118 118 Money as follows:

Loan start date	Loan amount	Monthly repayment	Total amount repayable	Loan term - months	Loan status
3/3/2020	£1,200	£95.01	£2,280.24	24	outstanding

When Mrs L complained to 118 118 Money it didn't uphold her complaint so she brought her complaint to us. One of our investigators looked at the complaint and didn't think that the lender had done anything wrong when it provided the loan.

Mrs L disagreed with our investigator's view. She mainly said that 118 118 Money didn't properly assess affordability or do enough checks and had it done so, it would've seen she was relying on other loans and credit cards to help meet expenses.

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.

"The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. Lenders must work out if a borrower can sustainably 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 proportionate check might also require the lender to 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 looks affordable, a lender still needs to think about whether there's 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 significant adverse consequences or more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

118 118 Money asked Mrs L about her income and expenses and carried out credit checks - and it sent this information to us. So I've been able to see information that 118 118 Money

relied on when it agreed to provide this loan to Mrs L. 118 118 Money was satisfied that its income and expenditure assessment showed that Mrs L should be able to make the repayments on her 118 118 Money loan out of her disposable income after paying her other monthly costs. So 118 118 Money felt this loan was affordable for Mrs L.

But I don't think 118 118 Money properly took into account the information it had gathered about Mrs L's overall financial situation or the likelihood of her being able to pay its loan in a sustainable manner. And I don't think 118 118 Money made a fair lending decision when it lent to Mrs L based on the information its credit checks revealed. Despite recording information that appeared to show that Mrs L had enough spare cash each month to cover the loan monthly repayments, I think 118 118 Money should've realised that it couldn't rely on this information because it was significantly at odds with what 118 118 Money saw on its credit checks showing Mrs L's credit history.

Its credit checks showed she had recently taken out other unsecured and payday loans, she was over the limit on one of her credit cards and it looked like she had been relying extensively on using her credit cards for cash advances, which is a particularly expensive way to obtain spending money.

118 118 Money's checks also showed that Mrs L was paying two large Hire Purchase agreements. And I think 118 118 Money should have considered that her total debt already looked substantial compared to the amount of her income.

118 118 Money understood that Mrs L's monthly income was around £2,334. Mrs L thinks this figure over-states her actual income – but I can see that 118 118 Money obtained third party verification of this figure so I think it was reasonable for the lender to think this was a fair reflection of her monthly income and work out its affordability assessment based on this figure. But this still meant that 118 118 Money could see that the total credit repayments Mrs L needed to make when she took out this loan took her debt servicing costs to almost half her total monthly income, according to the figures 118 118 Money relied on. Bearing in mind that 118 118 Money thought Mrs L should have had spare cash each month there was no obvious explanation why Mrs L should apparently need to rely to this extent on using expensive credit.

I don't think 118 118 Money made a fair lending decision when it provided this loan based on the information it had in front of it.

And even if 118 118 Money disagrees with me on this point, I think at the very least, it ought to have done more in-depth checks to ensure it had a proper understanding of Mrs L's financial situation given the contradictions between what she had said (or omitted to say), the amount of disposable income 118 118 Money thought she had and the record of borrowing its own credit checks revealed.

So, I've also looked at what I think proportionate checks would likely have shown.

Bank statements provided by Mrs L are a useful guide to understanding her overall financial situation at the time.

These confirm the indications apparent in the credit checks 118 118 Money had obtained that Mrs L was over-reliant in using credit to boost her income. Even so, her daily bank account balance in the months running up to her taking this loan was typically well under £100, on occasion she slipped into overdraft and I think it's fair to say that her earnings were well below the monthly income figure 118 118 Money relied on - her bank statements show average pay was around £1,323.

The balance of her income included benefits that were paid based on her earnings and circumstances and specifically intended to help cover other costs – not repay additional debt.

As well as this, I think 118 118 Money should have recognised that, with the repayment for this loan as well, Mrs L was committed to spending such a significant proportion of her income just on servicing debt that there was a serious risk she wouldn't be able to meet her existing commitments without having to borrow again during the loan term.

For all these reasons I believe that 118 118 Money should've realised that Mrs L wasn't in a position where her debt was sustainably affordable and it shouldn't have provided this loan.

So, I'm planning on upholding Mrs L's complaint and telling 118 118 Money it needs to put things right."

What the parties said in response to my provisional decision

Mrs L has told me she has nothing further to add. 118 118 Money has confirmed it accepts 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 118 118 Money for responding so promptly to my provisional decision and confirming 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 uphold this complaint for the reasons I explained in my provisional decision.

Putting things right

Our investigator didn't recommend that 118 118 Money should pay any additional redress. Mrs L hasn't commented on that and I haven't seen anything which makes me think 118 118 Money acted unfairly towards Mrs L in any other way.

So I'm not awarding any additional redress.

And it's fair and reasonable for Mrs L to repay the capital amount that she borrowed, because she had the benefit of that lending – but it's unfair to expect her to repay any more than the capital amount she borrowed.

If 118 118 Money has sold the outstanding debt it should buy this back before doing what I have outlined below or otherwise, liaise with the new debt owner to do the following:

- add up the total amount of money Mrs L received as a result of being given the loan. The payments Mrs L made should be deducted from this amount
- if this results in Mrs L having paid more than she 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 Mrs L bearing in mind the need to treat her positively and sympathetically
 - whilst it's fair that Mrs L's credit file is an accurate reflection of her financial history, it's unfair that she 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 Mrs L'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 Mrs L a certificate showing how much tax it has taken off if she asks for one.

My final decision

I uphold Mrs L's complaint 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 Mrs L to accept or reject my decision before 5 April 2022.

Susan Webb
Ombudsman