

The complaint

Ms N complains that 118 Money didn't inform her that she would need to take out a new loan, when she requested a payment holiday. She wants 118 Money to continue her previous loan and refund the additional interest charged.

What happened

Ms N has previously had loans with 118 Money. These are summarised below:

Loan 1: started in February 2019. The loan amount was £1000 over 24 months with a monthly repayment of £71.12. Interest was added to the loan at the outset, making the total to be repaid, £1706.88.

After 8 months, Ms N needed to extend her loan. Loan 1 was closed, and Loan 2 opened.

An interest refund was made to Loan 1, of £358.31. This left the balance which was carried forward to Loan 2 at £779.61.

Loan 2 included a further £500 capital which was released to Ms N.

Loan 2: started October 2019. The loan amount was £1279.61 over 24 months with a monthly repayment of £91.83.

Interest was added to the loan at the start, making the total to be repaid £2203.93.

In September 2020, Ms N contacted 118 Money and requested a payment holiday.

118 Money states that it did not operate a payment holiday facility, so to give a payment break it had to set up a replacement loan, Loan 3. 118 Money also states that it granted a three-month interest free payment holiday at this time.

Loan 3: did not release any new funds to Ms N, but arranged her remaining balance at the time over an additional three months, with no payment scheduled in the first three months.

Ms N agreed to the loan electronically via her mobile app, on 4 January 2021.

An interest rebate was added to Loan 2, because it was settled early. This meant that the balance of Loan 2, brought forward to Loan 3 was £992.44.

Interest was then added to that amount, making the total amount repayable £1577.24.

Ms N states that she was not permitted to make payments on her loan until it was signed, and her credit score was being affected, so she signed the agreement. She was unhappy so complained to 118 Money. 118 Money disputes this and says that Ms N cancelled her direct debit and continuous payment authority.

118 Money sent its final response in June 2021. It did not uphold her complaint and advised that it was not possible for her to return to her previous agreement.

Since that time, Ms N has missed repayments and fallen into arrears.

In June 2021, 118 Money sent Ms N a text message saying that if she paid £112.66 of her arrears (which were then at £225.32) it would write off a further £112.66 of her debt.

Ms N made that payment, and in error 118 Money wrote off a further £225.32 of her debt (rather than the £112.66 it had offered).

Ms N contacted us. She was unhappy that, by making a new loan, 118 Money had added more interest to her debt. She told us that she had not been warned of this and, if she had, she would have not taken the payment break and would have contacted another creditor.

Our investigator looked into this complaint and did not uphold the complaint. She felt that it was clear in the app journey which Ms N would have taken to sign the agreement that a new loan was being entered into. She thought that 118 Money had done enough to make it clear that it did not offer payment holidays, and only offered restructured loans.

Ms N did not accept that view and asked for an ombudsman decision.

I issued a provisional decision in relation to this complaint in January 2022. In that provisional decision I set out that, on the evidence available, I did not think that Loan 3 had been lent responsibly. This was because there was inadequate explanation of the way the restructured loan (which was also described as a temporary payment freeze) worked and whether Ms N could afford the increased repayments. I thought that Ms N should be treated as potentially in financial difficulties and that it was not responsible lending to offer a replacement loan on a higher repayment.

That provisional decision has been shared with the parties and they have been invited to respond.

Ms N has responded, agreeing with the provisional decision and providing evidence of 118 Money reporting arrears and missed repayments.

118 Money has responded and provided additional evidence, including a copy and details of the call Ms N made to request a payment holiday. 118 Money objected to the background I set out previously and my understanding that Ms N was forced to sign the agreement in January 2021 so that she could begin making repayments. 118 Money said that it had provided Ms N with an interest free repayment holiday immediately after her call in September 2020 and that Ms N had used an old link to access a restructured loan in January 2021.

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.

I have considered the additional information provided by the parties. I accept that 118 Money has reported missed repayments in 2021 and that this is affecting Ms N's credit score.

In respect of the information provided by 118 Money, I am grateful for the clarification of the timeline. This does, however, in places appear to contradict previous comments. In the final response letter, 118 Money said that 'in order to grant the consumer a payment holiday it

had to restructure the loan agreement' but in the recent information it states that it granted a three month interest free payment holiday to Ms N as she had not received the link to restructure the loan.

118 Money has also said that Ms N accessed an old link to restructure her loan and this resulted in Loan 3. I cannot be certain what happened to enable that link to still work months after it was initially sent in September when it was sent with a time limit for signing. I do, however, think that the terms of the payment holiday and restructured loan were not made clear to Ms N in September 2020 when she called.

From the evidence provided, it appears that a restructured loan was discussed in September 2020, she was then granted a three-month interest free payment holiday because she had not received the link to agree to a restructured loan, and then Ms N signed the agreement in January 2021.

I have amended the background in line with the comments received but do not think that this materially changes my view.

In my provisional decision I stated that I did not think that 118 Money had done enough to check the affordability of a restructured loan repayment, or to treat Ms N as potentially suffering from financial difficulties.

The call which has now been provided corresponds with the telephone note. Ms N was advised that she would need a restructured loan, but there was no detailed discussion of whether she could afford it. The agent detailed some illustrative cost increases based on 5,10,15,20 or 25% increases to the monthly repayment but did not clarify which would apply to Ms N. The agent also did not investigate Ms N's other expenses and asked her to self-assess her affordability. As previously set out, I think this is inappropriate in cases of consumers expressing difficulty paying.

I therefore remain of my previously expressed view and adopt my provisional decision, as supplemented by this decision, as my final decision.

Putting things right

In order to put matters right, 118 Money must remove all interest from Loan 3 and recalculate the balance so that all repayments Ms N has made, and any write offs made by 118 Money, are deducted from the capital balance.

118 Money should also remove all negative information relating to September 2020 onwards from Ms N's credit file. As I have previously stated, in this complaint, I have only considered Loan 3 and the circumstances of Loan 3 arising. If Ms N feels that the previous loans were inappropriate, or unaffordable, she would need to make new complaints to the business about these.

Finally, I think that Ms N has been caused substantial distress and inconvenience from this. 118 Money should therefore pay her £200 compensation for her trouble and upset.

This should be paid to her directly and not deducted from the balance, unless Ms N requests that it be used against her outstanding balance.

If the recalculation results in Ms N having overpaid to 118 Money, any overpayment should be refunded to her, along with interest at a rate of 8% per annum from the date of payment up until the date of settlement.

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My final decision

For the reasons given above and in my provisional decision I uphold Ms N's complaint and direct Madison CF UK Limited trading as 118 118 Money to:

- Remove all interest from Loan 3 (Loan number ending 564);
- Recalculate Ms N's account so that all repayments and written off sums are deducted from the capital balance;
- account to Ms N explaining the recalculation;
- If this recalculation results in a balance due to Ms N, to add interest at a rate of 8% per annum from the date of payment up until settlement;
- Remove all adverse information from Ms N's credit file from September 2020 onwards (in respect of this loan or any loan which it replaced) and
- Pay to Ms N £200 compensation for her distress and inconvenience.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms N to accept or reject my decision before 11 April 2022.

Laura Garvin-Smith
Ombudsman