

The complaint

Mr B has complained that Madison CF UK Limited trading as 118 118 Money was irresponsible in lending to him.

What happened

118 118 Money provided Mr B with the following loans:

	Date taken	Total Loan	Term	Monthly repayment	Amount Borrowed	Date repaid
Loan 1	24/06/15	£3876	24 months	£161.50	£2000	01/10/15
Loan 2	21/10/17	£2752.08	24 months	£114.67	£1500	10/01/19
Loan 3	10/01/19	£3727.44	24 months	£155.31	£1952.61	08/08/19

Mr B complained that 118 118 Money shouldn't have lent to him as he had a gambling addiction.

118 118 Money looked into his complaint and didn't uphold it. It said it had carried out proper checks and it thought the loans were sustainable. Mr B referred his complaint to us.

I issued a provisional decision explaining why I was minded to uphold this complaint in part. An extract from my provisional findings is set out below:

"We've set out our general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website.

Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Mr B's complaint. These two questions are:

- 1. Did 118 118 Money complete reasonable and proportionate checks to satisfy itself that Mr B would be able to repay the loans without experiencing significant adverse consequences?*
 - If so, did it make a fair lending decision?*
 - If not, would those checks have shown that Mr B would've been able to do so?*
- 2. Did 118 118 Money act unfairly or unreasonably in some other way?*

The rules and regulations in place required 118 118 Money to carry out a reasonable and proportionate assessment of Mr B's ability to make the repayments under this agreement.

This assessment is sometimes referred to as an “affordability assessment” or “affordability check”.

The checks had to be “borrower-focused” – so 118 118 Money had to think about whether repaying the loan would be sustainable. In practice this meant that the business had to ensure that making the repayments on the loan wouldn’t cause Mr B undue difficulty or significant adverse consequences. That means he should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation.

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 loan repayments on Mr B. Checks also had to be “proportionate” to the specific circumstances of the loan application.

In general, what constitutes 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/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

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

- the lower a consumer’s income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);*
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);*
- the greater the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).*

I’ve carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr B’s complaint.

Loan 1

When he applied for the loan, Mr B told 118 118 Money that his monthly income was £2,840 and he said he had no regular outgoings. To check that, 118 118 Money carried out a credit search and verified his income. 118 118 Money calculated that Mr B had monthly living costs of £710 and credit commitments of £303.90. On those figures he would have had a disposable income of £1,664.60 after making the new loan repayment of £161.50 to 118 118 Money.

118 118 Money also carried out a credit search before granting the loan. This showed that Mr B had a hire purchase account, a credit card and a telecommunications account, all of which he’d paid well. There were two defaults from five years previously on credit accounts that had since been settled.

I think 118 118 Money’s checks were proportionate given the size and term of the loan and the value of the repayment in relation to Mr B’s monthly income So I don’t think 118 118 Money ought to have been concerned the loan wouldn’t be sustainably affordable for Mr B. It follows I don’t think 118 118 Money was wrong to give Mr B Loan 1.

Loan 2

Using the same approach as for Loan 1, 118 118 Money carried out a credit search and verified Mr B's income of £2,007 a month. It calculated that Mr B had monthly living costs of £1,080 and credit commitments of £380. On those figures he would have had a disposable income of £878.43 after making the new loan repayment of £114.67 to 118 118 Money.

118 118 Money carried out another credit search before granting this loan. This showed that Mr B had three current accounts, a hire purchase account, a credit card and a telecommunications account, all of which he'd paid well. There was a late payment on a loan in the previous 24 months which had since been settled and on a utility bill in 2015. It also knew that Mr B had repaid Loan 1 in line with his agreement.

Again I think 118 118 Money's checks were proportionate given the size and term of the loan and the value of the repayment in relation to Mr B's monthly income. I can understand why overall 118 118 Money thought the credit check was satisfactory and that the loan would be sustainably affordable for Mr B.

In February 2018 Mr B told 118 118 Money that he'd been underpaid and wouldn't be able to make the repayment due in March but could make two payments the following month which he duly did. In August 2018 Mr B told 118 118 Money he couldn't make the repayment due that month due to having to pay a deposit and fees in connection with moving house. Again he made up for it the following month. This loan was later repaid in full out of the proceeds of Loan 3.

Loan 3

When he applied for this loan, Mr B's monthly income was still £2,007 and he said he paid rent of £700. 118 118 Money carried out a credit search and verified his income again. It calculated that he'd have other regular outgoings of about £501.70. Based on the credit search 118 118 Money calculated that Mr B had monthly credit commitments of £380. On those figures he would have had a disposable income of £269.99 after making the new loan repayment of £155.31 to 118 118 Money.

118 118 Money said it carried out a further credit search before granting the loan and the result was similar to the previous one. The search would probably have shown that Mr B had missed a repayment with another finance company but he'd cleared the arrears within two months as he had with Loan 2.

I've carefully considered what 118 118 Money has said about how it calculated Mr B's disposable income before it made Loan 3. I don't think its checks were proportionate. This was now Mr B's third loan with 118 118 Money, and it was for a larger amount. His repayments would be about 35% higher than for Loan 2 where he'd twice struggled to make repayments on time. His credit commitments with the Loan 3 repayment would be more than 25% of his monthly income. Due to these factors I think 118 118 Money should have carried out further checks to assure itself that Mr B would be able to repay the loan in a sustainable way over the 24-month term. I think it ought to have carried out a more thorough review of Mr B's finances. As I can't see that this was done, I don't think that the checks carried out before providing Mr B with this loan were reasonable and proportionate.

I've looked at Mr B's bank statements from around the time he applied for this loan. I'm not suggesting here that these are the checks that 118 118 Money should necessarily have done. But I think looking at these would have given a good indication of the extent of Mr B's gambling addiction at this time. These show that in the two month period before he took out Loan 3 he spent at least £2,900 on gambling. So I can be certain that 118 118 Money would have uncovered information showing the loan would be unaffordable for Mr B because of his

addiction to gambling. So I don't think that 118 118 Money treated Mr B fairly when it agreed to make Loan 3 as it was likely that giving him more credit would simply add to his indebtedness.

I've also thought about whether 118 118 Money acted unfairly in some other way and I haven't seen any evidence that it did."

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.

As both parties agreed with my provisional findings, I see no reason to change them and they now form part of this final decision.

Putting things right

To put things right I think 118 118 Money should:

- remove all interest, fees and charges applied to Loan 3;
- treat any payments made by Mr B as payments towards the capital amount of £1952.61;
- if Mr B has paid more than the capital then any overpayments should be refunded to him with 8% simple interest* from the date they were paid to the date of settlement,
- but if there's still an outstanding balance, 118 118 Money should come to a reasonable repayment plan with Mr B; and
- remove any negative information about Loan 3 from Mr B's credit file.

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

My final decision

For the reasons given above, I uphold Mr B's complaint and require Madison CF UK Limited trading as 118 118 Money to put things right for Mr B as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 7 April 2022.

Elizabeth Grant
Ombudsman