

The complaint

Miss D has complained that Madison CF UK Limited trading as 118 118 Money was irresponsible in lending to her.

What happened

118 118 Money provided Miss D with the following loans:

	Date taken	Amount	Term	Monthly repayment	Total amount repayable	Loan status
Loan 1	01/02/14	£1,500	24 months	£84.38	£2,025.12	Settled 26/02/15
Loan 2	08/04/15	£1,500	24 months	£116.35	£2,792.40	Settled with part of proceeds of Loan 3
Loan 3	12/08/16	£2,740.10	24 months	£211.19	£5,068.56	Settled 03/07/17
Loan 4	07/12/17	£1,500	24 months	£116.44	£2,794.56	Settled 01/05/18
Loan 5	13/11/18	£1,200	18 months	£107.89	£1,942.02	Settled 04/12/18

Miss D complained that 118 118 Money hadn't carried out proper checks before lending to her. 118 118 Money didn't uphold her complaint. It also said that she was out of time in making a complaint about the first two loans.

Miss D referred her complaint to us. Our adjudicator upheld the complaint. She thought we could look at the entire complaint and didn't think 118 118 Money had made a fair lending decision in respect of any of the loans.

As 118 118 Money didn't agree regarding the merits of the complaint, the matter has been referred to me.

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.

Since 118 118 Money hasn't objected to our adjudicator's findings regarding the complaint about Loans 1 and 2 being within our jurisdiction, I don't need to consider that aspect further.

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 Miss D's complaint. These two questions are:

1. Did 118 118 Money complete reasonable and proportionate checks to satisfy itself that Miss D 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 Miss D 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 Miss D's ability to make the repayments under these agreements. 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 Miss D undue difficulty or significant adverse consequences. That means she 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 she had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on her 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 Miss D. 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 Miss D's complaint.

Loan 1

When Miss D applied for the loan, she told 118 118 Money that her monthly income was £2,100 and her expenses were £830. She said the purpose of the loan was to buy or repair a car. 118 118 Money said it carried out a credit search and verified Miss D's income using industry standard checks.

The credit search revealed that Miss D owed a total of £10,845 over ten active accounts. She was using 87% of her available credit and spending around £450 a month on her credit commitments. She had been three months behind on some repayments in the previous twelve months. She'd gone over the limit on a mail order account from June to August 2014. She'd had an arrangement to pay on some accounts earlier that year, including one arrangement that had lasted until the previous month. There had been some searches against her name by debt collection agencies.

Overall, I don't think the checks carried out for this loan were reasonable and proportionate. I say this because I think the result of its credit search should have led 118 118 Money to carry out a complete review of Miss D's finances before proceeding further.

I've looked at Miss D's payslip and bank statements from around the time she 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 Miss D's financial situation at this time. These show that before she took out the loan Miss D's salary was actually a lot less than she'd told 118 118 Money. In the month before she took out this loan her salary, child benefit and child tax credit came to £1,374.06. Her bank account was in overdraft with more going out than was coming in. A direct debit payment had been returned.

I think on balance 118 118 Money ought reasonably to have realised that Miss D was struggling financially. Up to very recently Miss D had been finding it difficult to repay her existing credit commitments and so it would be unlikely that over the next 24 months she would be able to sustainably repay the loan it was proposing to make. I think in these circumstances 118 118 Money should reasonably have concluded that it was not appropriate to lend to her.

Loan 2

At the time she applied for this loan, Miss D said her income was £2,000 a month and her expenses £1,375. 118 118 Money carried out the same checks as for Loan 1.

By this time Miss D's total borrowing had increased to £15,374 and she was using 96% of the credit available to her. She was £350 over her credit limit on a mail order account and had missed some repayments on mail order accounts recently. That suggests to me that her financial position had become worse rather than better.

Again I think the checks can't be said to be proportionate but in any event 118 118 Money ought reasonably to have realised that as Miss D had been finding it difficult to repay her existing credit commitments she would be unlikely to be able to sustainably repay this loan. I don't think 118 118 Money treated her fairly by lending to her.

Loan 3

A year later Miss D paid off Loan 2 with part of the proceeds of Loan 3 and borrowed more again. 118 118 Money's credit search showed she'd clearly been having some financial difficulties in the past few months. She'd been given a credit extension on a short-term loan and taken out several pay day loans. She'd defaulted on her mail order account and she had an arrangement to pay on other accounts. She'd gone over the limit on her credit card account twice in 2016. I think this information should have concerned 118 118 Money as it indicated that Miss D was struggling to meet her existing commitments.

If 118 118 Money had looked at Miss D's payslip and bank statements, it would have seen more evidence of how she was struggling financially. Her income was still much less than she'd told 118 118 Money and her credit commitments swallowed up over two thirds of it.

Again I think 118 118 Money ought reasonably to have realised that Miss D would be unlikely to be able to sustainably repay this loan.

Loan 4

Similarly by December 2017 Miss D was using 100% of her available credit. She was in default on her credit card and mail order accounts, both of which had been passed to debt collection agencies. Earlier that year she'd been in an arrangement to pay on a credit card account and three months earlier on a telecommunication account. The previous month she'd been late repaying a pay day loan. She'd taken out a loan for £8,000 five months earlier.

This seems at odds with the information 118 118 Money had gathered indicating that Miss D would have ample disposable income each month. However if 118 118 Money had investigated her financial situation further before granting the loan, it would have found out that her income from salary and child benefit was much less than the figure it was working on and her credit commitments had crept up so that they were taking up over three quarters of it. I think 118 118 Money should have realised that with a further loan repayment of £116.44 on top, this latest loan was very unlikely to be affordable for Miss D.

Loan 5

Eleven months later Miss D was still using 100% of her available credit and owed a total of £11,058. She was also still in default on her credit card and mail order accounts. She'd gone over the limit on her credit card account three months earlier. If 118 118 Money had carried out further checks, it should have seen that with this latest loan Miss D would be paying around £752 a month on her credit commitments which was over half her income from salary and child benefit. Once again this latest loan was very unlikely to be sustainably affordable for Miss D.

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.

Putting things right

As I have concluded 118 118 Money shouldn't have provided Loans 1 to 5, it should:

- refund all interest, fees and charges applied to those loans;
- pay interest* of 8% simple a year on any refunded interest, fees and charges from the date they were paid (if they were) to the date of settlement; and

- remove any negative information about these loans from Miss D's credit file.

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

My final decision

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 13 June 2022.

Elizabeth Grant
Ombudsman