

The complaint

Mr B, through his representative, complains that Madison CF UK Limited trading as 118 118 Money (Madison) lent to him irresponsibly.

What happened

Using information from Madison, here is a brief table of the loans approved. Loan 5 was withdrawn and the capital repaid and no interest was paid by Mr B.

Loan	Approved	Amount	Term	Repay each month	Settled
1	9 October 2014	£1,500 Consolidate debt	12 m	£171.47	21 Jan 2015 In debt 3.5 months
2	3 Feb 2015	£2,000 Holiday or travel	24 m	£141.43	19 August 2015 In debt 6.5 months
Gap 5.5 months after 10 months in debt					
3	28 Jan 2016	£1,500 Home furnishing	24 m	£116.88	10 March 2016
Gap of 15.5 months					
4	28 June 2017	£2,000 Electric goods	24 m	£155.75	24 Jan 2018
5	24 Jan 2018	Total £2,654.91 of which £1,654.91 to be used to pay off loan 4 and £1,000 cash	24 m		Withdrawn On 26 January 2018 £1,654.91 paid off and £1,000 not taken

Mr B said *'I initially took out a loan with 118 118 Money to cover my other loans I had at this time. I was borrowing from various other lenders at the time. My financial situation was dire. I was working full time and was finding it incredibly difficult to stay on top of all my bills.'* Mr B felt that if Madison had carried out sufficient checks it would not have lent to him.

Our adjudicator wrote her first view citing three loans and before the business file had been received. That was because Madison did not send us the business file for several months.

Having received all the information our adjudicator needed from Madison, her second view was more detailed and in it our adjudicator gave reasons as to why she thought that Madison ought not to have lent to Mr B at all. Our adjudicator thought that Madison should put things right in relation to all five loans.

Mr B's representative accepted that outcome. Madison did not and said:

- Loan 5 was withdrawn and so no interest was paid; and
- it disputed the reasons for the uphold for loan 2 – namely that there were mortgage arrears. Madison said that according to its records, there were two missed mortgage

payments 22 months before loan 2 was approved which it did not think was enough to lead it to not lend.

- it also said that our adjudicator's reference to Mr B's poor credit card record was a case of poor monthly payment management by Mr B rather than an indication of struggling to repay them;
- Madison did not agree that the credit search result it had carried out before approving loan 3 showed a history of serious arrears;
- Madison did not accept that before loan 4, Mr B had been missing his mortgage payments.

Madison made no comment in relation to loan 1.

Our adjudicator's third view was to correct the loan 5 situation and her view was that Madison should put things right for Mr B in relation to loans 1 to 4.

Madison disagreed again and said that as well as the earlier points, it also wished to know why and how our adjudicator had calculated that Mr B was spending a significant proportion of his income on the loans. It told us that:

'For loan two, we've calculated that the customer will be spending 11%, including our loan repayment.

For loan three, we've calculated that the customer will be spending 25%, including our loan repayment.

For loan four, we've calculated that the customer will be spending 26%, including our loan repayment.'

Our adjudicator issued a fourth view to amend one aspect. The unresolved complaint was passed to me to decide.

Considering the above I reviewed the whole complaint and issued a provisional decision on 20 April 2022. In that provisional decision I gave reasons why I was planning not to uphold loans 1 to 3, I was planning to uphold the complaint in relation to loan 4, and as loan 5 had been withdrawn and no interest was paid by Mr B there was no loss, I did not review loan 5.

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 general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance and good industry practice - on our website.

Taking into account the relevant rules, guidance and good industry practice, what I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are whether Madison completed reasonable and proportionate checks to satisfy itself that Mr B would be able to repay in a sustainable way? And, if not, would those checks have shown that Mr B would've been able to do so?

If I determine that Madison did not act fairly and reasonably in its dealings with Mr B and that he has lost out as a result, I will go on to consider what is fair compensation.

The rules and regulations in place required Madison 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 Madison had to think about whether repaying the loan would be sustainable and/or cause significant adverse consequences for Mr B. In practice this meant that Madison had to ensure that making the payments to the loan wouldn’t cause Mr B undue difficulty or significant adverse consequences.

In other words, it wasn’t enough for Madison 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 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.

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).

What follows is a duplicate of my provisional decision in smaller type to differentiate it.

my provisional decision dated 20 April 2022

I’ve carefully considered all the arguments, evidence and information provided in this context and what this all means for Mr B’s complaint. And although Madison has not responded in relation to loan 1, because the parties have received four letters of opinion from our adjudicator I have chosen to review all four loans. I indicated earlier that I’d not be reviewing loan 5. I’ve considered what Mr B has told us and I have had the advantage of being able to review Mr B’s bank statements which I have used to see Mr B’s income and his normal expenditure.

Loan 1

Mr B applied for a relatively modest sum of £1,500, and as a new customer, where the term involved a 12 month repayment period I would have expected Madison to know details about Mr B’s income and expenditure and credit situation. Madison had collected data from him about his monthly income after tax (£4,509 a month) plus his outgoings. Those included mortgage, insurance, council tax, utilities, food costs and childcare and all came to £1,625.

In addition, Mr B had declared that he spent around £620 a month on other credit commitments. Madison carried out a credit search and I have reviewed the results it received in 2014 when Mr B applied for loan 1. I can see from the search results that his mortgage was higher at around £824 a month and I can see that he had two other credit facilities costing him around £549 each month. He had three credit cards – two were well under their limits and had no payment issues. A third credit card was just over the card limit but Mr B had been paying towards it each month.

There’s nothing in these credit search results which I think would have caused Madison to be alerted to any financial issues and as Mr B’s disposable income was good then even if Madison had a

concern I doubt it would have deterred it from lending. Madison carried out checks proportionate to the loan, the term and the fact Mr B was a new customer with a good disposable income.

I plan not to uphold Mr B's complaint about loan 1.

Loan 2

Mr B applied for loan 2 about two weeks after repaying loan 1 about eight months earlier than scheduled. It was for more money and to be repaid over a longer term. Mr B gave Madison information about his income and expenditure. The figures were not quite the same as for loan 1. His income was a little less at £4,493. Mr B gave a figure of £832 for his mortgage and had declared that his credit repayments had reduced from £620 to £320 each month. So, his total expenditure was around £1,739 which included mortgage, insurance, council tax, utilities, food costs and childcare. Added to which was the £320 for other credit commitments.

Madison had carried out a credit search and it showed that the one credit card which had been just over its limit had been paid down substantially since October 2014. And all three credit cards were under their limits.

Addressing the point raised by our adjudicator and Madison about the mortgage repayments – then I can see that Mr B had a late payment record of '2' about 22 months before loan 2 was approved. But immediately after that the repayments returned to normal and there had been no problems since that date. I doubt that this would have been, or ought to have been, a concern for Madison. And even it was, Mr B's monthly disposable income was healthy at around £2,400.

Even if Madison had looked at Mr B's bank statements for the period leading up to the loan 2 approval in early February 2015, I have reviewed the period up to 31 December 2014 (I do not have the set for January 2015), and there is nothing in those bank transaction lists which leads me to think that Madison would have had such concerns that it considered lending to Mr B was irresponsible.

I am planning not to uphold Mr B's complaint about loan 2.

Loan 3

Mr B had been in debt to Madison in total for ten months and after paying off loan 2 about seventeen months earlier than scheduled, followed by a five and a half month gap with no debt to Madison, Mr B returned to Madison to apply for loan 3.

I have thought carefully about whether this gap in the lending relationship broke the lending chain. I think it may have done but ultimately this may be an academic point. And I say this because looking at the terms, £1,500 over 24 months, I think that the checks proportionate for it would have been for Madison to have carried out a full financial review. And so, the five month gap in the lending relationship would not likely have made a difference to what I would have expected Madison to have carried out before approving loan 3.

Mr B gave Madison information about his net income and expenditure: £4,400 for his income and around £1,760 for all expenditure plus an additional £550 a month on other credit commitments.

Madison carried out a credit search and I have reviewed the results and what Madison saw in January 2016. The total balances on Mr B's loan and instalment credit figure had increased and his '*Balance to limit*' ratio had increased to 91% for revolving credit accounts. The bank loan he had taken out in August 2015 was for £22,120 and was costing Mr B around £486 each month. And Mr B looks to have taken a second mortgage.

The increase in debt was significant but it was a bank loan – not a loan from a high cost lender or a series of payday loans. I do not hold the same view as that of our adjudicator – that the credit search results showed a history of serious arrears. And so, I would not expect Madison to have raised an alert about it. And I have seen from the figures that Mr B was able to afford them and the Madison Loan 3 was much less - £116 a month - than the other two Madison loans.

I do not think that Madison did review Mr B's bank statements before approving loan 3, and if Madison had done that, as I have bank statements for the period leading up to the end of January 2016, then I have looked to see what Madison would have seen if it had reviewed them.

I don't consider that the bank transactions reveal anything which likely would have caused Madison to decide not to lend. I can see Mr B paid out to his mortgage provider, the further mortgage provider and bank loan and had an account with a high – cost lender. But these would have been seen by Madison with its credit search. In my view Madison carried out proportionate checks and if it had done additional checks still I do not think that there was enough information here to suggest that Mr B was either struggling financially or unable to afford the £116 a month for loan 3.

I am planning not to uphold Mr B's complaint about loan 3.

Loan 4

After paying off loan 3, Mr B returned to Madison for loan 4 after fifteen and a half months. In my view this does break the lending chain and I think that it was reasonable of Madison to have approached Mr B's application for loan 4 as if he were a new customer.

Mr B wanted a loan of £2,000 and to be repaid over 24 months and so although the payment of just over £155 a month was not particularly high, I think that the two year commitment meant that Madison needed to have carried out a full review of Mr B's finances.

Mr B declared net monthly income of £4,700 and his total expenditure including mortgages, council tax, utilities, food, childcare and insurance came to around £1,982 plus Mr B told Madison he was spending around £790 a month on card and loan payments. He told Madison that the reason for the loan was electrical goods.

Madison carried out a credit search and Mr B had been receiving defaults. One of those related to an account which on Madison's credit search records showed as '*gambling*' and so Madison was on notice that Mr B had an issue with that. Looking at Mr B's bank statements I can see that Mr B was gambling regularly in July 2017.

Mr B's overall indebtedness had increased mainly because he had paid off two mortgages and obtained a building society new mortgage costing him more each month. So, I agree with Madison where it says that it disputes that our adjudicator had said he had been missing his mortgage repayments. Mr B had restructured that debt.

Mr B's credit cards were close to, or over, their maximum limits. And it seems that Mr B had other loans too plus at least one high-cost account which Mr B had been running for several years.

I have received Mr B's bank statements which cover some of 2017 but unfortunately I do not have the bank statements covering the period May and June 2017. However, I can see Mr B's outgoings on his gambling which were taking place in July 2017 and so I think it's reasonable to assume, especially with the gambling account default, that this was a regular activity of Mr B's in 2017.

This element does alter things as the picture appears to be of someone taking credit regularly which was escalating and likely needed to provide funds for gambling. So – on the evidence I have now for loan 4, and after a full financial review, I do not think that Madison ought to have lent to Mr B.

I am planning to uphold Mr B's complaint about loan 4.

This is the end of the duplicated provisional decision.

How did the parties respond to the provisional decision?

Mr B's representative has written to us to say it has nothing further to send to support Mr B's complaint.

Madison has not responded to the provisional decision.

Therefore I see no reason to alter my findings and so for the same reasons given in the provisional decision which are repeated here and form part of this final determination, I uphold Mr B's complaint about loan 4, and I make no finding in relation to loan 5 as the loan was withdrawn with no loss to Mr B.

Putting things right

I uphold Mr B's complaint about loan 4 and direct that Madison CF UK Limited should:

- remove all interest, fees and charges applied to loan 4;
- treat any payments made by Mr B as payments towards the capital sum of £2,000;
- if Mr B has paid more than the capital, then any overpayments should be refunded to him with interest* of 8% simple a year from the date they were paid to the date of settlement;
- remove any negative information about loan 4 from Mr B's credit file.

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

My final decision

My final decision is that I uphold Mr B's complaint in part and I direct that Madison CF UK Limited does as I have directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 1 June 2022.

Rachael Williams
Ombudsman