DRN-3436400

The complaint

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

What happened

Mr H was approved for one loan with Madison in August 2020 which was for £2,000 repayable over 24 months at £117.66 a month. The first scheduled payment was 1 September 2020.

Mr H complained through his representative in March 2021 and received Madison's final response letter dated 20 May 2021. It did not uphold Mr H's complaint.

One of our adjudicators first looked at the complaint and thought that Madison had done something wrong and that it should have put things right for Mr H. Later our adjudicator reconsidered the complaint and did not think that Madison had done anything incorrect.

Mr H has requested that an ombudsman reviews the complaint. The unresolved complaint was passed to me to decide.

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 H would be able to repay in a sustainable way? And, if not, would those checks have shown that Mr H would've been able to do so?

If I determine that Madison did not act fairly and reasonably in its dealings with Mr H 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 H'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 H. In practice this meant that Madison had to ensure that making the payments to the loan wouldn't cause Mr H 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 H. 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).

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

Mr H’s representative has articulated his complaint as ‘irresponsible lending’ which is how I have approached it. But reading Mr H’s complaint form for background, this is what he said:

> *‘The loans were very easy to obtain, I would borrow from one lender to pay off another, I soon became dependant on the loans and all my wages were used to cover loan repayments, this led to me being short of funds and I would take further loans to bridge the gap between pay dates.’*

I consider this to be a complaint about the lending market in general rather than specifically against Madison. And I say this because he took one loan with Madison and so his reference to multiple loans and loan repayments must relate to the multiple lenders he had borrowed from and not necessarily Madison. But it gives the impression he had multiple loans at the same time as the one from Madison. And I do not think that was the case.

Further information Madison obtained before lending was from Mr H’s credit search report that it has forwarded to us. It’s clear from that set of results that Mr H entered a DRO (Debt Relief Order) which ended in April 2019 and they usually last 12 months. And so, reviewing the results it’s clear that nearly all the older credit accounts ended in April 2018 when he likely entered the DRO one year before, or the account end dates are in April 2019 one year after entering into that DRO. The significance of that DRO is that all his debts appear to have been cleared following the end of that DRO in April 2019. So there would have been no money owing on these older debts.

As Mr H applied for the Madison loan in August 2020, almost 14 months later, then I do not think that Madison needed to be too concerned with the closed accounts. I am fully aware that Mr H’s credit history was of importance and Madison obtained that. But as most of the accounts had closed, and Mr H’s current situation at the time of lending was relatively good, then I do not consider that Madison needed to look into Mr H’s finances more than it did.

At the time Mr H applied for this loan his outstanding credit was very low. Here is a duplicate of the summary on the credit report Madison had at the time:

> ***Indebtedness Indicators***
> *Total Balances (All): £ 512*
> *Total Balances (Revolving Credit/Budget): £ 512*
> *Total Limits (Revolving Credit/Budget): £ 950*
> *Balance to Limit Ratio (Revolving Credit/Budget): 53 %*

Mr H had opened two accounts in the previous six months. There was a record of one County Court Judgment (CCJ) which was dated April 2018 - just before the DRO was entered. It was for a modest sum of £394.

Accounts and credit accounts opened since April 2019 had been well run and had no issues in relation to any late payments. And so, it seems to me that Madison looked at the overall picture and approved Mr H for the one loan over 24 months repayable at £117.66 each month. It had information about Mr H's income (£2,275) and his general expenditure (total was £1,009) and calculated that Mr H could afford the loan.

Mr H has had two different letters of opinion and the first one said that the credit checks had revealed some matters of concern which Madison ought to have considered before lending. Our adjudicator said:

> *'The results of the checks showed some concerning information in relation to his recent financial history. The credit report you obtained at the time showed that the consumer had an active Judgement against him and had six defaulted accounts.'*

However, I think that upon reviewing the whole complaint myself, I can see why the adjudicator may have thought that. But my view is that following Mr H's successful DRO, which relegated all that (apart from the CCJ) to history, then I think that Madison's approach was correct, proportionate and it interpreted the results in the way I would. Which is that after April 2019, Mr H's record was good and the credit level very low. And so, I do not consider that Madison was irresponsible when it lent to Mr H in August 2020.

My final decision

My final decision is that I do not uphold Mr H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 8 July 2022.

Rachael Williams
Ombudsman