

## The complaint

Mr R complains through his representative that Madison CF UK Limited trading as 118 118 Money lent him money on high cost loans that he was unable to afford to repay.

## What happened

118 118 Money provided Mr R with the following loans:

	Date				
Loan 1	7/1/2016	£1,500	£118	24 months	Settled 22/8/2017
Loan 2	5/9/2017	£2,000	£158	24 months	Settled 5/10/2017
Loan 3	31/10/2017	£2,450	£245	24 months	Settled 27/4/2018
Loan 4	30/10/2018	£1,000	£78	24 months	Debt sold on

Mr R contends through his representative that unaffordable short term lending caused a debt spiral, leading to repeat borrowing and a worsening of his financial situation. His debt problems were accentuated and made worse to such a degree that he was put in the position of having to obtain further high-interest credit from other providers to service the loan repayments - which eventually forced him to the point that he had to seek debt advice to manage his debts. He has now entered into an IVA (individual voluntary arrangement) to service his debts. Mr R has supplied his bank statements from around the time of all four loans.

118 118 Money said that its procedures ensured, in line with FCA (Financial Conduct Authority) rules, that Mr R as an applicant was creditworthy and could afford the loan he had applied for. It has supplied copies of the credit checks it did for all four loans and the application data in respect of the forms completed by Mr R. It used standard industry verification checks to confirm Mr R's status and income. It assessed the loans as being affordable.

Our adjudicator said that, for loans 1 and 2, the repayments for Mr R's existing commitments plus his new loan repayment represented a significant proportion of his declared monthly income. So there was a significant risk that Mr R wouldn't have been able to meet his existing commitments without having to borrow again. For loans 3 and 4 she said 118 118 Money should have carried out a thorough assessment of Mr R's financial circumstances. She thought Mr R's lending history suggested a pattern of dependency on this type of borrowing and that 118 118 Money ought to have realised it was unlikely he would've been able to sustainably repay the loans.

118 118 Money asked that the decision regarding loan 1 be referred to an Ombudsman for final review. The reason is because there were three loans that all had less than three payments remaining and therefore, it would be unfair to include these payments into Mr R's ongoing commitments as they would not be ongoing. In addition, the first loan was for consolidation and as such, was enough to settle all of the loans outstanding.

The matter has been passed to me for further consideration.

### **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.

Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- Did 118 118 Money complete reasonable and proportionate checks to satisfy itself that Mr R would be able to repay the loans in a sustainable way?
- If not, would those checks have shown that Mr R would have been able to do so?

The rules and regulations in place required 118 118 Money to carry out a reasonable and proportionate assessment of Mr R's ability to make the repayments under the 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 loans would be sustainable. In practice this meant that 118 118 Money had to ensure that making the repayments on the loans wouldn't cause Mr R 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 R. 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. I think that such a 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 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).

118 118 Money has asked for an Ombudsman's decision regarding loan 1 only. This means that it accepts the adjudicator's view concerning loans 2,3 and 4. So I won't make any further comment about those loans, but will make directions accordingly.

#### *loan 1*

This loan was said to be for debt consolidation. And I note that Mr R paid off loans which according to the credit report had outstanding balances of respectively £221, £479 and £90 (the balances were slightly more at the time of repayment). However those loans only had £1 payments allocated to them in the credit report. So effectively they were not included in the credit commitments. Mr R had three other loans with a combined repayment of £376. Whilst he may have been able to pay those off within two or three months, 118 118 Money could have ensured they were fully paid off out of the loan monies before issuing the balance of the loan monies to him. It's clear from his bank statements that he was continuing to take out loans, had done so for the three months preceding loan 1 and the month after it.

Mr R's income was said to be £1,100 but it would appear from his statements that this fluctuated below that by £100 or £200 and would have been the maximum figure for around this time. More concerning is that his application gave a figure of £50 for monthly expenditure apart from credit commitments. This was clearly a gross underestimate – the bank statements show he was just about earning enough not to go into overdraft but that doesn't take account of monies he received from loans. He had travel expenses, tv and gaming subscriptions and took out large sums in cash (e.g. in December 2015, £240) and I've noted a payment in of £240 from a betting company.

I've noted that 118 118 Money wouldn't have seen this information as it didn't see Mr R's bank statements. But my view is that it should have been alerted to carry out a more thorough assessment of Mr R's income and outgoings. This was in light of the fact that he had taken out several high cost loans in the months before the application and in light of his very low declared expenses. If it had carried out such an assessment I think it would have noted a pattern of reliance on payday and high cost loans. This reliance continued and led Mr R into taking out the further loans with 118 118 Money and other companies.

So I don't think that 118 118 Money made a fair lending decision.

#### **Putting things right**

Mr R has had the capital sum in respect of each of the loans and it's fair for these sums to be repaid, I should warn Mr R and his representatives that the supervisor of his IVA has asked that, under the terms of the IVA, any redress be paid to that company rather than directly to Mr R. In respect of the four loans. 118 118 Money should:

- Remove all interest, fees and charges applied to loans 1,2,3 and 4..
- Treat any payments made by Mr R as payments respectively towards the capital amounts of £1,500, £2,000, £2450 and £1,000.
- If Mr R has paid more than the capital, refund any overpayments to him with 8%\* simple interest from the date they were paid to the date of settlement.

- If reworking Mr R's loan accounts results in there being an outstanding capital balance 118 118 Money should try to agree an affordable repayment plan with Mr R.
- Remove any adverse information, if appropriate, about loans 1,2,3 and 4 from Mr R's credit file.
- As 118 118 Money sold the outstanding debt on loan 4 to a third-party it should do what it can to buy it back - if it can't then it can't deduct any outstanding balance from the redress and it needs to work with the third-party to bring about the steps above.

\*HM Revenue & Customs requires Madison CF UK Limited trading as 118 118 Money to take off tax from this interest. It must give Mr R a certificate showing how much tax it's taken off if she asks for one.

### **My final decision**

I uphold the complaint and require Madison CF UK Limited trading as 118 118 Money to provide the remedy set out under "Putting things right" above.

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

Ray Lawley  
**Ombudsman**