

The complaint

Mr P complains through his representative that Madison CF UK Limited trading as 118 118 money lent him money on a high cost loan which he was unable to afford to repay.

What happened

118 118 Money provided Mr P with a loan on 20 July 2020 for £1,500, repayable at the rate of £94 a month over 24 months. Mr P got into difficulties with the repayment and had several failed payments up until August 2021 when his representative first raised a complaint about the affordability of the loan with 118 118 Money. Mr P's representative has supplied an up to date (to June 2021) credit report

118 118 Money said it carried out standard industry verification checks, including obtaining as credit report, and assessed Mr P's application thoroughly. It was satisfied that it had acted correctly in approving the loan application.

Our adjudicator said that the repayments in respect of the proposed new loan (when added to Mr P's existing loan and debt repayments) represented a significant proportion of his income. In these circumstances, there was a significant risk that Mr P wouldn't have been able to meet his existing commitments without having to borrow again.

118 118 Money pointed out that using a 25% threshold in respect of the proportion of credit commitments against income is not an automatic uphold, particularly where the customer has sufficient disposable income as was the case here.

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.

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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 P would be able to repay the loan in a sustainable way?
- If not, would those checks have shown that Mr P 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 P'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 it had to ensure that making the repayments on the loan wouldn't cause Mr P 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 P. 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 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 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).

With regard to 118 118 Money's comments about the proportion of Mr P's credit commitments against income, I agree that this being over 25% doesn't automatically mean the loan was unaffordable, and I don't think the adjudicator said this. But one of the potential indicators that the level of affordability risk arising out of the agreement may be high may include where the total value of the customer's debts relative to the customer's income is high.

I've noted that Mr P had five credit cards which he was using, and he had been making more than the minimum payment each month. However he had two home credit loans for which he had respectively missed four and five payments in the last six months as set out in the credit report obtained by 118 118 Money. This was an indication both of Mr P using credit to fund daily living and of difficulties in keeping up with payments.

Mr P's income as verified was relatively low, about £1,149 a month. 118 118 Money says that Mr P had sufficient disposable income to pay the loan. However I do think it's for 118 118 Money to show that it has assessed this disposable income properly by taking into account Mr P's income and outgoings. The only evidence I've seen of this is a document setting out the data on Mr P's application form. This records his income as £1,149, and his rent as £268. No other outgoings (or credit commitments) are listed. This either means that

Mr P didn't provide them or 118 118 Money didn't list them. But it would have known that Mr P had substantial credit commitments and he would have had other living expenses such as food, utilities etc. Allowing a minimum of £500 for those and £300 for his credit commitments, with his rent payment this would leave only £81 to pay the loan. On the basis of his likely disposable income I don't think the loan was affordable.

The obvious solution in this case would have been to consolidate all his debts. The purpose for the loan was set out as "other" and none of the monies paid to Mr P were used to pay off any of his debts. If this had been done there would have been enough to pay off all the credit cards and the two home credit loans leaving Mr P with just the new loan payment. I note from his later credit report that he hadn't managed to pay any of his credit cards off. Indeed the debts had increased on each one. He had also taken out a new loan and two further credit cards.

I think 118 118 Money carried a proportionate affordability check. But, whilst I appreciate that 118 118 Money wouldn't have known that Mr P would take on more debts, I think there was sufficient information in the credit report it carried out and in Mr P's circumstances for this loan to be likely unaffordable. So I think 118 118 Money didn't make a fair lending decision.

Putting things right

Mr P has had the capital sum for the loan and it's fair that he repays this. So I will require 118 118 Money to do the following

- Remove all interest, fees and charges applied to the loan.
- Treat any payments made by Mr P as payments towards the capital amount of £1,500.
- If Mr P 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.
- But if there's still an outstanding balance, 118 118 Money should come to a reasonable repayment plan with Mr P.
- Remove any adverse information about the loan from Mr P's credit file.

*HM Revenue & Customs requires 118 118 Money to deduct tax from this interest. It should give Mr P a certificate showing how much tax it's deducted if he asks for one.

My final decision

I uphold the complaint in part 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 P to accept or reject my decision before 20 June 2022.

Ray Lawley
Ombudsman