

The complaint

Mr S says Madison CF UK Limited, trading as 118 118 Money, lent to him irresponsibly.

What happened

Mr S took out a 24-month instalment loan for £3,000 on 2 November 2016. The monthly repayment was £299.32 and the total repayable was £7,183.68. I understand there is an outstanding balance.

Mr S says the loan was unaffordable and he has suffered financial hardship as a result.

Our adjudicator did not uphold the complaint. He said the lender's checks were proportionate and did not show anything that meant 118 118 Money shouldn't have lent to Mr S.

Mr S disagreed and asked for an ombudsman's review, so the complaint was passed to me. I reached a different conclusion to the adjudicator, so I issued a provisional decision. An extract follows and forms part of this final decision. I asked both parties to send any comments or new evidence by 28 April 2022.

Extract from my provisional decision

I can see 118 118 Money asked for some information from Mr S before it approved the loan. It asked for details of his monthly income and his monthly expenditure. It says it checked these against reasonable average figures – but it hasn't made clear if this meant it amended what Mr S had declared. It asked about his residential status and whether he had dependents. It asked about the purpose of the loan which was 'home furnishing'. It also checked Mr S's credit file to understand his credit history and current commitments. From these checks combined 118 118 Money concluded Mr S had enough monthly disposable income to afford to repay the loan.

I think these checks were proportionate, but I am not persuaded 118 118 Money made a fair lending decision based on the information it gathered. I'll explain why.

Mr S declared a net monthly income of £1,550 and 118 118 Money could see that he had recently taken out two loans that had combined monthly repayments of £371. By giving this loan 118 118 Money was increasing the amount of his income Mr S would need to spend on servicing debt to around 43%. I think at this level the lender ought to have realised there was a risk the repayments would not be sustainable over the term of the loan. And it needed to consider this to meet its regulatory commitments, not just the pounds and pence affordability. I note Mr S went on to have problems making his repayments seven months into the term of the loan.

It follows I think 118 118 Money was wrong to lend to Mr S.

I haven't seen any evidence 118 118 Money acted unfairly or unreasonably towards Mr S in some other way.

I then set out what 118 118 Money would need to do if I went on to uphold Mr S's complaint.

Neither party sent any comments or new information in response to my provisional decision.

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.

Our approach to unaffordable/irresponsible lending complaints is set out on our website and I've followed it here.

As neither party sent in any new evidence it follows I have no reason to change the findings or outcome in my provisional decision. For the reasons set out above I find 118 118 Money was wrong to lend to Mr S.

Putting things right

I think it's fair and reasonable for Mr S to repay the capital that he borrowed, because he had the benefit of that money. But he has paid interest and charges on a loan that shouldn't have been provided to him.

It seems 118 118 Money has sold the debt so it should first buy it back if it is able to. If this is not possible it must work with the new owner to achieve the same outcome as the steps below. It must:

- Refund all interest, fees and charges from the loan and treat all the payments Mr S made as payments towards the capital.
- If reworking Mr S's loan account results in him having effectively made payments above the original capital borrowed, then 118 118 Money should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- If reworking Mr S's loan account results in an outstanding capital balance 118 118 Money must try to agree an affordable repayment plan with Mr S.
- Remove any adverse information recorded on Mr S's credit file in relation to the loan.

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

My final decision

I am upholding Mr S's complaint. Madison CF UK Limited, trading as 118 118 Money, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 27 May 2022.

Rebecca Connelley
Ombudsman