

Complaint

Mr G complains Madison CF UK Limited (trading as “118 118 Money”) unfairly lent to him.

Background

118 118 Money provided Mr G with a loan for £2,000.00 in November 2020. This loan was due to be repaid in 36 monthly instalments of just over £90. One of our adjudicators reviewed Mr G’s complaint and she thought 118 118 Money shouldn’t have provided Mr G with his loan. 118 118 Money disagreed, so the case was passed to an ombudsman for a final decision.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Mr G’s complaint. 118 118 Money needed to make sure it didn’t lend irresponsibly. So 118 118 Money needed to carry out proportionate checks to understand whether Mr G could afford to repay his loan.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship. But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

118 118 Money may argue that the relatively low monthly payments meant that a light touch assessment would have been proportionate here. But I’m mindful that the credit check carried out showed clear signs that Mr G was already significantly indebted and struggling to manage what he already owed. So I think that 118 118 Money ought to have found out more about more about Mr G before determining that this loan was affordable for him.

I think further checks would have extended into finding out more about Mr G’s expenditure. And if 118 118 Money had done this here, I’m persuaded that it would have seen that Mr G was already in a difficult financial position at the time and also found out why this was the case. I’m also satisfied that reasonable and proportionate checks would more likely than not have shown 118 118 Money that Mr G’s existing precarious financial position was because he was struggling as a result of personal issues.

So I’m persuaded by what Mr G has said about already being in a difficult financial position at the time and the reasons for this. And as reasonable and proportionate checks should have extended into finding out about Mr G’s income and expenditure, I’m satisfied that they would more like than not have shown 118 118 Money that it shouldn’t have provided this

loan to Mr G. As 118 118 Money provided Mr G with this loan, notwithstanding this, I'm satisfied it failed to act fairly and reasonably towards him. Mr G ended up paying interest, fees and charges on a loan he shouldn't have been provided with in the first place. So I'm satisfied that Mr G lost out because of what 118 118 Money did wrong and that it should put things right.

Fair compensation – what 118 118 Money needs to do to put things right for Mr G

Having thought about everything, 118 118 Money should put things right for Mr G by:

- removing all interest, fees and charges applied to the loan from the outset. The payments Mr G made should be deducted from the new starting balance – the £2,000.00 originally lent. If Mr G has already repaid more than £2,000.00 then 118 118 Money should treat any extra as overpayments. And any overpayments should be refunded to Mr G;
- adding interest at 8% per year simple on any overpayments, if any, from the date they were made by Mr G to the date of settlement†
- if no outstanding balance remains after all adjustments have been made, all adverse information 118 118 Money recorded about this loan should be removed from Mr G's credit file.

† HM Revenue & Customs requires 118 118 Money to take off tax from this interest. 118 118 Money must give Mr G a certificate showing how much tax it has taken off if he asks for one.

I'd also remind 118 118 Money of its obligation to exercise forbearance and due consideration if it intends to collect on an outstanding balance, should an outstanding balance remain after all adjustments have been made to the account and it's the case that Mr G is experiencing financial difficulty.

My final decision

For the reasons I've explained, I'm upholding Mr G's complaint. Madison CF UK Limited should put things right in the way I've set out above.

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

Jeshen Narayanan
Ombudsman