

Complaint

Mrs C has complained about a loan Madison CF UK Limited (trading as “118 118 Money”) provided to her. She says the loan was unaffordable.

Background

118 118 Money provided Mrs C with a loan for £3,000.00 in August 2020. This loan was due to be repaid in 24 monthly instalments of just under £190.

One of our investigators reviewed Mrs C’s complaint and she thought 118 118 Money shouldn’t have provided Mrs C with this loan. So she thought that Mrs C’s complaint should be upheld. 118 118 Money didn’t respond 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 Mrs C’s complaint. Having carefully considered everything I’ve decided to uphold Mrs C’s complaint. I’ll explain why in a little more detail.

118 118 Money needed to make sure it didn’t lend irresponsibly. In practice, what this means is 118 118 Money needed to carry out proportionate checks to be able to understand whether Mrs C could afford to repay any credit it provided. 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.

Despite being provided with an extended period of time to do so, 118 118 Money hasn’t explained why it disagrees with our investigator’s assessment. Nonetheless, I’ve looked at the information 118 118 Money obtained when it provided this loan in an attempt to determine whether it made a fair lending decision.

The information 118 118 Money has provided suggested that 118 118 Money carried out a credit check. The results of which clearly demonstrated that Mrs C was already significantly indebted, had a number of existing accounts which had defaulted and was in a position where she was taking out cash advances on credit cards. The credit search also shows a history of payday loans having been taken too.

So I'm persuaded by what Mrs C has said about already being in a difficult financial position at the time. And while it's possible her credit file reflected her choices rather than any financial difficulty, I'd add that my experience of these types of cases suggest this is unlikely, in the absence of any reasonable or plausible arguments from 118 118 Money, I've been persuaded to accept Mrs C's version of events.

As this is the case, I do think that Mrs C's difficulties managing her existing credit meant that she was unlikely to be able to afford the payments to this loan, without undue difficulty or borrowing further. And as reasonable and proportionate checks should have extended into finding out about Mrs C'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 Mrs C.

As 118 118 Money provided Mrs C with this loan, notwithstanding this, I'm satisfied it failed to act fairly and reasonably towards her.

Mrs C has ended up paying (and is still being expected to pay) interest, fees and charges on a loan she shouldn't have been provided with. So I'm satisfied that Mrs C 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 Mrs C

Having thought about everything, 118 118 Money should put things right for Mrs C by:

- removing all interest, fees and charges applied to the loan from the outset. The payments Mrs C made, to 118 118 Money (and any debt purchaser should the account have been sold), should be deducted from the new starting balance – the £3,000.00 originally lent. If Mrs C has already repaid more than £3,000.00 then 118 118 Money should treat any extra as overpayments. And any overpayments should be refunded to Mrs C;
- adding interest at 8% per year simple on any overpayments, if any, from the date they were made by Mrs C 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 Mrs C's credit file.

† HM Revenue & Customs requires 118 118 Money to take off tax from this interest. 118 118 Money must give Mrs C a certificate showing how much tax it has taken off if she 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 one remain after all adjustments have been made to the account (and it retains ownership of this), and it's the case that Mrs C is experiencing financial difficulty.

My final decision

For the reasons I've explained, I'm upholding Mrs C'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 Mrs C to accept or reject my decision before 27 June 2022.

Jeshen Narayanan
Ombudsman