

The complaint

Mr S 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 S with the following loans:

	Date	Amount	Term	Monthly repayment*	Status
Loan 1	22/6/2020	£1,500	24 months	£122	repaid
Loan 2	21/2/2021	£1,000	24 months	£74	open

*rounded up

Mr S said that he was in a very poor financial position when he took out the loans with 118 118 Money. And that he fell behind with existing payments as a result of having to pay the loan instalments. He also had to take out further loans so that he could keep up with essential payments.

118 118 Money said that its procedures ensured, in line with FCA (Financial Conduct Authority) rules, that Mr S 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 both loans and the application forms completed by Mr S. It used standard industry verification checks to confirm Mr S's status and income. It assessed both loans as being affordable.

Our adjudicator said that he didn't think the checks carried out by 118 118 Money were proportionate, based on the evidence in the credit reports he said that 118 118 Money shouldn't have lent Mr S the money. And as a result it should repay the interest and any charges relating to both loans.

118 118 Money disagreed, and asked for an ombudsman's decision in respect of loan 2. It said the credit report for loan 2 showed that Mr S had taken only one account in the six months up to the loan. It also showed that there were no new defaults on the credit file within the 12 months. The credit file also showed that Mr S had two credit cards he wasn't using at all, and another that was being used a small amount. This demonstrated that he wasn't credit hungry or reliant on credit to get by. It further noted that Mr S still had two outstanding defaults, however he had settled another.

I issued a provisional decision. In it I said that I thought 118 118 Money had made a fair lending decision in respect of loan 2.

Neither party has made any comments on my provisional findings.

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.

The following were my provisional findings:

"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 S would be able to repay the loans in a sustainable way?*
- *If not, would those checks have shown that Mr S 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 S'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 S 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 S. 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).*

I have to decide in this case:

- *Whether 118 118 Money carried out proportionate checks.*
- *If it did whether those checks showed a) that it shouldn't have lent the money as on the face of them the loan was unaffordable or b) that it should have been alerted to*

carry out a more thorough assessment of Mr S's circumstances eg by asking for bank statements.

- In the event of b) whether there is evidence to show that the said assessment would have shown that the loan was unaffordable.*

loan 1

118 118 Money has accepted our adjudicator's view in respect of this loan. So I won't make any further comment, but will make directions below accordingly.

loan 2

The credit report in respect of loan 1 showed that Mr S had a credit card with a balance of £490, defaulted in 2016. At the time of this loan's application, Mr S had reduced the balance to £348. He had had a defaulted loan on his record at the time of applying for loan 1 but Mr S had now paid this. The other default was a £20 telecommunications debt. And he had an old CCJ (County court judgment) from 2016 for £296 which appeared to be still outstanding.

Mr S had taken out a new loan in July 2020 i.e. a month after loan 1, this was for around £4,500, the monthly repayments being £164. However he had paid off a previous loan (not the defaulted loan). He did have a number of credit cards, one of which was near its limit of £2,000. Two other cards had balances on them respectively of £413 and £58. He also had two cards with no balances on them.

Taking all his credit commitments together, and allowing a monthly payment of 3% of the balances on his credit cards, with the new loan payments, these amounted to £334, around 17% of his declared monthly income of £2,015. His outgoings including rent amounted to around £920, leaving a monthly disposable income of about £760. I think this indicates that the loan was affordable to Mr S.

I think that the checks carried out were proportionate, and I can't see anything in those checks that might have alerted 118 118 Money to carry out any further assessment of his circumstances. Mr S's bank account was not and hadn't been in overdraft at the time leading up to both applications.

Lastly if Mr S or his representatives seek to argue that 118 118 Money should have carried out further checks on his financial circumstances, I should point out that our adjudicator did ask for copy bank statements which haven't been supplied. So I've seen no evidence outside that supplied by 118 118 Money of Mr S's financial circumstances at the time of applying for loan 1 or 2.

I think, in respect of loan 2, that 118 118 Money made a fair lending decision."

As neither party has commented on them, my provisional findings are now final and form part of this final decision.

Putting things right

I uphold the complaint in part.

Mr S has had the capital sum for loan 1 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 loan 1.
- Treat any payments made by Mr S as payments towards the capital amount of £1,500.
- If Mr S 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.
- Remove any adverse information, if appropriate, about loan 1 from Mr S's credit file.

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

In respect of loan 2, I don't uphold the complaint..

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 S to accept or reject my decision before 22 June 2022.

Ray Lawley
Ombudsman