

The complaint

Mr M complains about three loans provided to him by Madison CF UK Limited, trading as 118 118 Money, ("118 118"), which he says were unaffordable. The complaint is brought to this service on Mr M's behalf by a claims' management company. But for ease, I shall refer below to all actions being taken by Mr M.

What happened

118 118 agreed three loans for Mr M. Some of the information 118 118 provided about the loans is shown in the table below.

Loan number	Start date	End date	Loan amount	Monthly repayments	Term (months)
1.	30/1/2019	2/10/2019	£2,000	24 monthly repayments of £154.02	24
2.	18/1/2020	11/3/2020	£2,000	24 monthly repayments of £162.58	24
3.	3/12/2020	14/10/2021	£1,000	12 monthly repayments of £118.56	12

Mr M says that he got into debt from the loans and suffered financial hardship as a result.

In its final response letter, 118 118 said that it had asked Mr M for information about his income and expenditure, the reasons for the loans and about his employment. It said that it had used industry standard verification checks to validate this information. It was satisfied that it had acted correctly in approving the loan applications.

Our investigator's view

Our investigator recommended that the complaint about Loans 2 and 3 should be upheld. He said with regard to Loan 1 that the checks which 118 118 completed prior to the approval of this loan, should have reasonably made the lender aware that Mr M was exhibiting signs of financial difficulty. He believed that there were unanswered questions about Mr M's circumstances that needed answers to ensure that Mr M could repay the borrowing sustainably. But having considered all information available to him, he hadn't seen enough to suggest that Loan 1 was unaffordable to Mr M at the time.

With regard to Loan 2, the investigator said that based on the evidence that was available to 118 118, it should have reasonably concluded that Mr M's overall pattern of borrowing suggested that he had become persistently reliant on credit. He said this because the amounts Mr M was borrowing stayed roughly the same and because he was repeatedly coming back for new loans. So, Mr M's overall borrowing pattern indicated that the loans from here were unsustainable and he didn't think 118 118 should have given Mr M Loans 2 and 3.

118 118 disagreed with the investigator's view with regard to Loans 2 and 3. It said that it did not feel that the credit files for Loans 2 and 3 painted a picture of someone who was

struggling with their finances. The total debt balances remained relatively low in the months leading up to both loans and there was no information recorded that would have caused concern.

As this complaint hadn't been resolved informally, it was passed to me, as an ombudsman, to review and resolve.

my provisional decision

After considering all the evidence, I issued a provisional decision on this complaint to Mr M and to 118 118 on 27 May 2022. I summarise my findings:

I'd noted that when 118 118 lent to Mr M the regulator was the Financial Conduct Authority and relevant regulations and guidance included its Consumer Credit Sourcebook.

I said that 118 118 would be aware of the relevant regulations and how we considered irresponsible lending complaints, so I didn't go into detail on these points. I summarised by saying that it needed to check that Mr M could afford to meet his repayments without difficulty before agreeing credit for him. In other words, it needed to check he could make his repayments out of his usual income without having to borrow to meet them, while meeting his existing obligations and without the payments having a significant adverse impact on his financial situation. The assessments needed to take into account the nature of the credit and Mr M's circumstances.

With this in mind, my main consideration was whether 118 118 treated Mr M fairly when it agreed to lend to him. I'd thought about whether 118 118 had completed reasonable and proportionate checks when assessing his applications to satisfy itself that he would be able to make his repayments without experiencing adverse consequences. I'd thought about the information it knew, and what it ought reasonably to have known.

Loan 1

Loan 1 was for £2,000. The interest rate was 71.3%, (99.9% APR). If Mr M made each payment when it was due, he'd pay £3,696.48 in total. Mr M repaid Loan 1 in October 2019. I'd noted that 118 118 had gathered some information from Mr M about his income and expenditure. It had also carried out a credit check.

Mr M told 118 118 he was single and was living with his parents. He'd declared his net monthly income as £1,333. He said his living costs were £440 and his card and loan payments were £500. But 118 118 ought to have been aware from its credit checks that Mr M's monthly credit commitments would have exceeded £500. I'd calculated them to be around £800. I thought this suggested further verification was needed bearing in mind the term of the loan, the cost of the credit, and what 118 118 saw or ought to have seen in the information it gathered.

I'd also noted that 118 118 didn't ask Mr M for payslips or bank statements to verify his income and expenditure but relied on an income verification tool from a credit reference agency. I hadn't seen the results of its income verification so couldn't say if this was accurate.

I'd reviewed 118 118's credit checks. I'd noted that these showed that Mr M had 12 active credit accounts and that 14 accounts had been opened in the previous six months. His total credit balance was £3,330.

I thought the results of 118 118's credit checks ought to have caused it significant concerns as they suggested that Mr M was struggling to manage his money as shown especially by his regular use of short term loans. I could see that Mr M had been borrowing short term loans every month from May 2018 to December 2018. The credit checks didn't show any records from January 2019 (although I'd noted from 118 118's credit checks for Loan 2 that Mr M did take out a short term loan in January 2019 for £350). The checks showed that during those eight months Mr M had borrowed around £6,060, an average of £757 each month. The loans were often taken out shortly after the previous loan was repaid. This suggested that Mr M was borrowing to fill a hole in his finances that was made by repaying his previous loan. I'd said that this wasn't a sustainable form of borrowing. As the checks showed that Mr M had taken out around 17 short term loans in around eight months, I thought this suggested that Mr M was facing serious problems managing his money. As Mr M was borrowing a significant amount of short term loans just to fund his existing expenditure and credit commitments, I thought there was a very real prospect that he would need to borrow again in order to repay Loan 1 and that would likely have a significant adverse effect on his financial situation.

I could also see on the credit checks that Mr M had borrowed a large number of short term loans in 2016 and 2017.

I'd also noted that Mr M had one credit card with an outstanding balance of £195 which was very near the card's credit limit of £200. I'd noted that there had been arrears on the credit card eight months prior to the loan application and the card balance had exceeded its credit limit four months prior to the application and the balance was within £5 of the credit limit in the next three months.

I thought 118 118 would also likely have been aware that its credit checks might not have revealed the full extent of Mr M's credit commitments. A lender might only see a small portion of a borrower's credit file, or some data might be missing or anonymised. Its checks might not necessarily be up to date. Also, not all lenders reported to the same credit reference agencies.

Overall, I thought the results of its credit checks ought to have caused 118 118 concerns as I thought they suggested that Mr M was struggling to manage his money as shown especially by his frequent use of and apparent reliance on short term loans. At the very least I would have reasonably expected 118 118 to have taken steps to verify Mr M's income and actual monthly expenditure to gain a more thorough understanding of his financial position in order to satisfy itself that he could repay the loan without the repayments having an adverse effect on his financial situation. 118 118 didn't say that it took steps to do this.

Whilst Mr M had told 118 118 that he would be using the loan proceeds to consolidate debt, I couldn't see from the information received from 118 118 that it had made this a condition of the loan. So, it couldn't be sure that the loans would be paid off. And Mr M would still have been left with some debt to repay even if he did repay some of his debts with the loan proceeds.

I could also see that even if Mr M used the proceeds of Loan 1 for debt consolidation, his total indebtedness was still increasing. He said he was using a loan of £2,000 to repay debt, but he would need around £3,700 to repay Loan 1.

So even though Loan 1 was for debt consolidation, I thought Mr M's relatively high amount of short term borrowing would have suggested that he was having serious problems managing his finances that a debt consolidation wouldn't have solved. Mr M's finances weren't stable, and overall, I didn't think that further checks would have provided the assurance 118 118

needed. I also thought 118 118 ought reasonably to have realised that it was unlikely that Mr M would've been able to repay his loan without him having to borrow to meet the repayments, without him failing to make any other repayment he had a contractual or statutory duty to make, and without the repayments having a significant adverse effect on his financial situation.

I could also see from 118 118's credit checks on Loan 2 that Mr M continued to borrow from short term lenders in the months following Loan 1, and I thought this was foreseeable. I'd noted that within three weeks of taking out Loan 1, Mr M had taken out another two short term loans totalling £250.

So, I thought 118 118 had made an unfair lending decision when it agreed to lend Loan 1 to Mr M. And, subject to any further representations by Mr M or 118 118, I intended to uphold Mr M's complaint about Loan 1.

Loan 2

I'd noted that Loan 2 was taken out around three and a half months after Loan 1 was repaid and Mr M again borrowed £2,000. I thought Mr M's need for further credit just a few months after repaying Loan 1 might have caused 118 118 concerns. The interest rate was 71.3%, (99.9% APR). If Mr M made each payment when it was due, he'd pay £3,901.92 in total. Mr M repaid the loan in March 2020, less than two months after taking it out.

I'd noted that 118 118 had gathered some information from Mr M about his income and expenditure. It had also carried out a credit check.

Mr M again told 118 118 he was single and was living with his parents. He'd declared his net monthly income as £1,600. He said his living costs were £555 and his card and loan payments were £100.

I'd reviewed 118 118's credit checks. I'd noted that the checks showed that Mr M had seven active credit accounts. I could see that Mr M's overall credit balance had reduced slightly to £3,295. But the checks also suggested that Mr M had continued to be reliant on short term and other loans. I could see on the checks that Mr M had taken out short term and other loans every month from January 2019 to December 2019 (except September 2019 and October 2019 although 118 118's credit checks for Loan 3 showed that Mr M had taken out a loan for £5,000 in October 2019). Since November 2019, Mr M had borrowed three loans totalling £2,561.

I'd said that simply performing credit checks wasn't enough. A lender needed to react appropriately to the information that any checks showed. I thought 118 118's credit checks suggested that Mr M was still facing significant financial pressures.

Altogether I thought Mr M's apparent continued reliance on short term and other loans that 118 118 ought to have seen on its checks should have put 118 118 on notice that Mr M was still having serious problems managing his money. And I didn't think it could be confident that Mr M would be able to repay Loan 2 without having to borrow to meet his repayments. So, I didn't think 118 118 had made a fair lending decision to provide Loan 2 to him based on what it had already seen in its checks. Agreeing further credit for Mr M was only likely to add to his financial difficulties.

Loan 3

I'd noted that Loan 3 was taken out around nine months after Loan 2 was repaid and Mr M borrowed £1,000. I thought Mr M's need to borrow further credit again might have caused

118 118 concern. The interest rate was 71.3%, (99.9% APR). If Mr M made each payment when it was due, he'd pay £1,422.72 in total. Mr M repaid the loan in October 2021. I'd noted that 118 118 again gathered some information from Mr M about his income and expenditure. It had also carried out a credit check.

Mr M again told 118 118 he was single and was living with his parents. He'd declared his net monthly income as £1,600. He said his living costs were £640 and he had no card and loan payments. But again, 118 118 ought to have been aware from its credit checks that Mr M's monthly credit commitments would have likely exceeded £200. So, I thought it ought to have been concerned about the accuracy of Mr M's declared expenditure.

I'd reviewed 118 118's credit checks. I'd noted that the checks showed that Mr M had eight active credit accounts. I could see that Mr M's overall credit balance had increased to £8,008. But this was largely made up of one large loan taken out in October 2019, two credit cards, a mail order account and two telecommunications loans. Whilst I couldn't see that Mr M had taken out any loans (other than telecommunications loans) since Loan 2, I thought 118 118 might have been concerned that the balances on the two credit cards were approaching their respective credit limits.

I also didn't think it was reasonable for 118 118 to rely on the expenditure Mr M declared especially as 118 118 would have likely known from its credit checks that Mr M hadn't declared all his credit commitments to it. 118 118's affordability assessment wasn't tailored to Mr M and I thought it should have been in his circumstances. I also thought 118 118 ought reasonably to have questioned why Mr M, who appeared to have a disposable income of around £900 based on the amounts he'd declared, would need to take out an expensive loan for £1,000. This seemed unlikely if his monthly disposable income was around £900. Mr M was again entering into a significant commitment with 118 118. Loan 3 was his third loan from it in less than two years. Mr M would need to make monthly repayments of around £118 for 12 months. Altogether, I didn't think its checks were sufficient for 118 118 to get a clear picture of Mr M's finances at the time. And in view of Mr M's past credit history, I thought it would have been proportionate for 118 118 to independently check the true state of Mr M's finances before agreeing the loan.

118 118 needed to do more than just ascertain whether the loan repayments were technically affordable on a strict pounds and pence calculation. It could have done this by, for example, requesting bank statements from Mr M, asking for copies of bills and/or receipts for his expenses and by asking him for more information about his existing credit commitments. I couldn't see that 118 118 took steps to do this.

But although I thought 118 118 should have asked for some additional information before agreeing the loan, that in itself didn't mean that Mr M's complaint should succeed. I also needed to be persuaded that any further information would have shown 118 118 that Mr M couldn't sustainably afford the repayments.

I'd noted that the investigator had asked to see Mr M's bank statements from around the time of Loan 3. But despite his request, Mr M hadn't provided us with copies of these. So, I wasn't able to get a picture of what his financial situation was like at the relevant time. That meant I couldn't say that, if 118 118 had completed further checks, it would've found that Mr M couldn't afford to repay Loan 3.

So, based on the information I'd seen, I wasn't able to conclude that 118 118 shouldn't have agreed to provide Loan 3 to Mr M. I'd said that if Mr M was able to provide us with the relevant copies of his bank statements, I would reconsider my decision. But subject to any

further representations by Mr M or 118 118, I didn't intend to say that Mr M's complaint about Loan 3 should be upheld.

So, for the reasons set out above, I didn't think 118 118 had acted fairly when it provided Loans 1 and 2 to Mr M. And subject to any further representations by Mr M or 118 118, I intended to say that Mr M's complaint should be upheld in part, and that 118 118 should put things right as follows:

Putting things right – what 118 118 needs to do

118 118 should:

1. Refund all the interest and charges Mr M paid on Loans 1 and 2;
2. Pay interest of 8% simple a year on any refunded interest and charges from the date they were paid to the date of settlement*; and
3. Remove any adverse information recorded on Mr M's credit file in relation to Loans 1 and 2.

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

Mr M responded to my provisional decision to say that he accepted it.

118 118 responded to my provisional decision to say that it accepted it.

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.

I have also taken into account the law, any relevant regulatory rules and good industry practice at the time.

Given that Mr M and 118 118 have both accepted my provisional decision and have given me nothing further to consider, I see no reason to depart from the conclusions I reached in my provisional decision. It follows that I uphold this complaint in part and require 118 118 to take the steps set out above under the heading "Putting things right - what 118 118 needs to do".

My final decision

My decision is that I uphold this complaint in part. In full and final settlement of this complaint, I order Madison CF UK Limited, trading as 118 118 Money, to put things right as I've set out above under the heading "Putting things right – what 118 118 needs to do".

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 13 July 2022.

Roslyn Rawson
Ombudsman