

The complaint

Mr T complained that Madison CF UK Limited (trading as “118 118 Money”) irresponsibly provided him with an unaffordable loan.

What happened

118 118 Money provided Mr T with a loan as follows:

Date	Amount	Term	Monthly repayment	Total amount repayable
14 October 2018	£2,000	18 months	£215.43	£3,877.74

The stated loan purpose was debt consolidation – in other words, Mr T indicated on his application that he would use the loan to repay other debt.

Mr T said, through a representative, that 118 118 Money did not properly undertake affordability checks or assess signs of his over indebtedness and that the loan wasn’t affordable for him.

When Mr T complained to 118 118 Money it didn’t uphold his complaint.

One of our investigators looked into Mr T’s complaint.

He thought that 118 118 Money should’ve undertaken more detailed income and expenditure checks. He also felt that 118 118 Money should have done more to ensure that Mr T understood the costs and risks of taking out a high cost loan for the purposes of debt consolidation. So he felt this was a complaint we should uphold.

In response to the investigator’s view, 118 118 Money said it wasn’t licensed as a financial adviser and that the loan documentation it provided to Mr T, which it also discussed with him over the phone, set out full details of the loan costs.

The complaint came to me to decide. I issued a provisional decision.

What I said in my provisional decision

Here are some of the main things I said.

“There are some general principles and questions I need to think about when deciding whether to uphold this complaint. Before agreeing to lend, lenders must work out if a borrower can afford the loan repayments alongside other reasonable expenses the borrower also has to pay. This should include more than just checking that the loan payments look affordable on a strict pounds and pence calculation. A lender must take reasonable steps to satisfy itself that the borrower can sustainably repay the loan – in other words, without needing to borrow elsewhere.”

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. For example, when thinking about what a borrower has left to spend on a new loan after paying other expenses, as well as taking into account the loan amount, the cost of the repayments and how long the loan is for, a proportionate check might mean a lender should also find out the borrower's credit history and/or take further steps to verify the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if a loan would've been approved if the checks had been done.

I've kept all of this in mind when thinking about whether 118 118 Money did what it needed to before agreeing to lend to Mr T.

118 118 Money gathered some information from Mr T about his income and expenses before it agreed the loan. It completed income verification with a third party and checked Mr T's credit file to understand his existing monthly credit commitments and credit history.

118 118 Money concluded that its loan was affordable for Mr T – and I can see that the figures it relied on suggested he should have had ample surplus cash to pay this loan.

But, like our investigator, I don't think 118 118 Money thought carefully enough about what the information it had gathered potentially showed about Mr T's overall financial situation.

I say this because Mr T's credit history revealed some concerning information. It showed quite significant historic defaults – as well as a more recent defaulted balance of £125 dated just seven months before Mr T made this loan application. And the credit report showed what appeared to be five short-term unsecured loans all taken out within the previous three months – some within a few weeks of this application.

It isn't unusual for applicants for this type of high cost loan to have a credit history showing other borrowing or an impaired credit record – and these things wouldn't necessarily be reasons to prompt a responsible lender to decline a loan application. But whilst the information 118 118 Money saw wasn't enough in my view to warrant refusing his loan application, I think 118 118 Money should've been alerted to the need for more in-depth checking to ensure it had a proper understanding of Mr T's finances.

To my mind, 118 118 Money's checks should have included a full review of Mr T's financial circumstances and, in particular, further verification of his expenditure so it could ensure that the loan repayments were likely to be affordable over the term of the loan.

But although I don't think the checks 118 118 Money did before agreeing the loan were sufficient, that's not enough for me to be able to uphold Mr T's complaint. I also need to be able to say that if 118 118 Money had done what I consider to be proportionate checks, these would have shown 118 118 Money that Mr T couldn't sustainably afford the repayments.

I haven't however been provided with any further information to enable me to say what 118 118 Money would have most likely seen if it had carried out proportionate checks.

In coming to his view, our investigator took into account the income and expenditure information Mr T told us when he complained. This is significantly different to the information that Mr T provided to 118 118 Money during the loan application process and suggests he earned a lot less and his expenditure was significantly more than 118 118 Money allowed for in its affordability assessment.

But what someone says isn't enough on its own for me to be able to uphold a complaint and I must be impartial. I have to think about what information 118 118 Money was reasonably entitled to rely on when it made its lending decision.

118 118 Money did background checks with a credit reference agency which verified the income figure (£1,900) Mr T had declared to 118 118 Money during the loan application process and it relied on this figure when assessing affordability. Mr T also completed a declaration when signing the loan agreement to say that all the information he provided was true. So, on balance, I can't fairly say that it's more likely that his actual income was only £1,500 just based on contradictory information in Mr T's complaint. And I don't think the expenditure information he provided would've seemed unreasonable given that Mr T told 118 118 Money he was living with his parents at the time. So it was fair to think he probably would've had only limited responsibility for some of the usual household bills and costs as his declared outgoings suggested.

It is possible that seeing Mr T's bank statements from around the time would've given me more insight into his financial situation but, despite our investigator having twice asked for these, nothing further has been provided. The limited information I've seen on the credit report shows that when he applied for this loan, Mr T was well within his £100 overdraft limit - just £49 overdrawn. So that's not enough to make me think he was in serious financial difficulty at the time.

I've taken into account that Mr T said he would use the loan to repay other unspecified debt. Giving tailored financial advice would go beyond the lender's remit in this situation and I haven't seen enough to make me think that the amount or type of debt Mr T had, or how he was managing it, should have led 118 118 Money to decline his loan application.

This is because the loan Mr T had requested was sufficient to substantially cover his indebtedness as shown on the credit report 118 118 Money acquired. And although his recent loan track record was potentially concerning and it looked like those loans should be cleared within the next few months, using this loan to clear them would've immediately improved the amount of Mr T's monthly disposable income and reduced the proportion of his take home pay committed to repaying his debt. This might have suited his purposes and reflected his priorities even if it did add to the overall cost of his debt. 118 118 Money could see that Mr T had been substantially reducing his old default balances and his total amount of credit outstanding at the time wasn't a lot relatively speaking for someone in his financial situation. So I don't think it was unreasonable for 118 118 Money to provide this loan for the purpose of debt consolidation.

To sum up, I think the information 118 118 Money gathered should have prompted it to find out more about Mr T's financial situation at that time. But that's not a reason for me to uphold the complaint if I can't also point to information that 118 118 Money should've found out showing that the loan wasn't affordable for Mr T.

And bearing in mind that this loan was intended for debt consolidation, I think in these circumstances 118 118 Money was reasonably entitled to take a view that this suggested Mr T was borrowing specifically to help him manage his finances more responsibly, as it appeared he had been doing – and it looked like he ought to be able to afford to do that on the figures it worked out.

All in all, as I've not been able to see what better checks would have shown 118 118 Money, I am unable to say that Mr T was given a loan that was unaffordable for him or irresponsibly lent.

I appreciate this is a disappointing outcome for Mr T but hope setting out the reasons as I've done will help explain how I've reached my conclusions."

What the parties said in response to my provisional decision

118 118 Money has confirmed receipt of my provisional decision and agrees with what I've said.

I have heard nothing further from Mr T by the due date for responding so I think it's reasonable for me to proceed with my review of this complaint.

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.

We've set out our approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding this complaint.

As no further comments have been received in response to my provisional decision that change what I think about this case, I still think it's fair not to uphold this complaint for the reasons I explained in my provisional decision.

My final decision

For these reasons, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 26 July 2022.

Susan Webb
Ombudsman