

The complaint

Mr W complains that Madison CF UK Limited (“118 118 Money”) lent to him in an irresponsible manner.

What happened

Mr W was given 3 loans by 118 118 Money. He borrowed £2,250 in February 2016 and agreed to repay this over 24 months. He refinanced that loan in March 2017 and took additional borrowing. In total he was due to repay £3,910.60 over 36 months. Mr W then refinanced again for a second time in December 2017 and again added some additional borrowing on top. In total he borrowed £4,484.20 and agreed to repay this back over 24 monthly instalments. When Mr W made his complaint to 118 118 Money, he had repaid all that he had borrowed.

I issued a provisional decision on this complaint in May 2022. Both parties have received a copy of that provisional decision, but for completeness I include an extract from the decision below. I said;

“118 118 Money gathered some information from Mr W before it agreed to the first loan. It asked Mr W about his income and some information about his essential expenditure. It says it verified his income using an online tool. It carried out a credit check. It says those checks suggested Mr W had enough disposable income each month to afford the loan repayments.

Mr W was entering into a significant commitment with 118 118 Money. He was agreeing to make monthly repayments for a period of 2 years. So, I think it is right that 118 118 Money wanted to gather, and independently check, some detailed information about Mr W’s financial circumstances before it agreed to lend to him. I think that the checks it did were sufficient to achieve that aim. I think 118 118 Money’s checks were proportionate.

But simply performing proportionate checks isn’t always enough. A lender also needs to react appropriately to the information those checks show. Those results might sometimes lead a lender to undertake further enquiries into a consumer’s financial situation. Or, in some cases, the results might lead a lender to decline a loan application outright. So, I’ve looked at what the 118 118 Money gathered to see whether it needed to ask for more or whether it made a fair lending decision.

118 118 Money’s credit check showed that Mr W was making use of other credit at the time he applied for loan 1. He had a fairly large payday loan, a credit card, another loan and home credit. He also had recently incurred a default on a telecommunications account. So, I think it would have been right for 118 118 Money to be concerned at this early stage that Mr W might be facing some problems managing his money.

In total Mr W’s outstanding loan and revolving credit debt amounted to around £2,276, and due to the short-term nature of one of his loans, his next monthly repayment due was over £1,000. If Mr W had told 118 118 Money that he was using the loan for something other than debt consolidation, I would have made the same conclusion as our investigator and said that Mr W had committed to too much credit repayment already. But Mr W told 118 118 Money

that he wanted to use its loan to refinance those other debts. Since the amount that Mr W asked to borrow was around the same as his total outstanding credit, I think it would have been reasonable for 118 118 Money to accept his explanation of how he would use the loan at this stage. And by using the loan in that way Mr W would be able to reduce his credit expenditure from the £1,000 repayment he was due to make to around £178 per month. The loan term was clearly a lot longer, being 2 years, for him to be indebted by. But Mr W had a chance at this stage to clear all of his outstanding debts and have one affordable monthly repayment going forward.

So, at this stage I think it was reasonable for 118 118 Money to accept Mr W's reason for applying for loan 1. And by doing so Mr W could significantly reduce his monthly outgoings and pay of his outstanding other debt. So, I currently don't think 118 118 Money did anything wrong when it agreed to give him loan 1.

Mr W then came back and asked 118 118 Money for a second loan in March 2017. He was looking to refinance and also have an additional amount paid to him on top. 118 118 Money says he told it he was going to use the capital coming to him for a car or car repairs. I think Mr W coming back, around halfway through his first loan repayments, asking for more finance should have caused 118 118 Money concern.

As before, 118 118 Money asked Mr W for information about his income and expenditure. It largely carried out the same checks as it did for the first loan including a credit check. The checks again suggested that Mr W had enough disposable income each month to afford the second loan repayments. And, although I think it ought to have had some concerns as I have already mentioned, I think on balance, its checks were also proportionate. But again, I think it would need to react to what these checks showed, and I don't think it did for loan 2. I think it should have not agreed to lend and I will explain why.

The credit check that 118 118 Money carried out showed that Mr W had taken out several lines of new credit since it had last carried out a check on his finances for the application for loan 1. Mr W had 15 active accounts on this check. The additional active accounts had been taken out by Mr W within weeks of him applying for this loan. I can see that he had taken out 4 short term loans in January and February 2017 alone and he had repayments to make on all of these. He also had 2 new home credit accounts and he had extended his credit limit for a mail order account too. In short, the debt consolidation from loan 1 didn't work.

Mr W's outstanding debt had significantly increased from around £2,250 to over £6,000 and he now had several new credit commitments. Seeing all of this on Mr W's credit report, demonstrate to me, on balance, that Mr W had become reliant on credit and was taking out loans to repay existing debt. He was now paying over half of his monthly income to service his debt and this loan would do nothing to alleviate that or improve the situation he found himself in. By agreeing to loan 2, all that 118 118 Money were doing were extending the terms of his first loan and agreeing to lend a bit more, that would in turn add to Mr W's growing debt burden. For all the reasons I have just mentioned, I don't think the loan repayments for loan 2 were sustainably affordable for Mr W and 118 118 Money shouldn't have agreed to it.

Mr W then came back 9 months later and asked for a third loan for £4,484.20. This would be repaid over 2 years with a proportion of the loan being used to repay loan 2 and an additional amount going to Mr W. 118 118 Money carried out similar checks to the ones it did for the first two loans. I don't think the checks it carried out here were proportionate, due to the findings I have already made and also because he had been indebted to 118 118 Money now for 22 months. I think by now, it ought to have been looking to carrying out a complete review of Mr W's finances. But I think with the information it did have in front of it, it shouldn't have given Mr W the loan anyway.

The credit search results that 118 118 Money gathered for loan 3, showed that in only 9 months Mr W had increased his overall indebtedness to almost £12,000. He had taken out further credit including a significant loan for £6,193. Mr W was still making use of short-term lending. It is clear to me at this stage that Mr W's debts were increasing steadily, and he continued to borrow more to repay what he already owed. This loan repayment was also not sustainably affordable for Mr W and 118 118 Money shouldn't have agreed to this loan either. Mr W told 118 118 Money that he was going to use the money for debt consolidation but as I have already explained, his previous attempt to do this had failed. It is more likely than not that Mr W would only be adding more to his debt pile by taking loan 3.

In addition, as I have already mentioned, Mr W had been indebted to 118 118 Money for 22 months, when he came back and asked for another loan. I think 118 118 Money ought to have had serious concerns about the pattern of lending that had developed here and Mr W's reliance on it for credit. I say this because the amount he had asked to borrow over this time had not decreased at all. Mr W was paying large amounts of interest to service a debt to 118 118 Money over an extended period of time and this had become harmful to him.

In conclusion, I think 118 118 Money made proportionate checks when it agreed to loan 1 and on balance didn't do anything wrong when it agreed to lend at that stage. But by the time Mr W asked for loan 2, his circumstances had changed and 118 118 Money ought to have seen and reacted to this through the checks it made. I am currently minded to think it didn't make a fair lending decision when it agreed to loan 2 and his finances deteriorated further when it agreed to loan 3, so I don't think it should have given him that loan either. I also am minded to conclude that Mr W had become reliant on credit from 118 118 Money by the time he had asked for loan 3 and this was harmful to him. So, I uphold Mr W's complaint and 118 118 Money need to put things right."

I asked both parties to let me have any comments, or additional evidence, in response to my provisional decision. Both parties responded and had no further comments.

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.

As neither party has anything further to add that I feel I need to comment on or that will change the outcome of this complaint, I don't see any reason to depart from my findings within my provisional decision. With that being the case, I uphold Mr W's complaint.

Putting things right

I think it is fair and reasonable for Mr W to repay the principal amount that he borrowed for loans 2 and 3, because he has had the benefit of that lending. But he has been indebted with interest and charges on loans 2 and 3 that shouldn't have been provided to him.

118 118 Money should:

- Remove all interest, fees and charges on loans 2-3 and treat all the payments Mr W has made as payments towards the capital.
- If reworking Mr W's loan account results in him having effectively made payments above the original capital borrowed, then 118 118 Money should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled*.

- Discuss with Mr W an affordable repayment plan if there is still an outstanding balance to repay.
- Remove all negative information about Loan 2 on Mr W's credit file. Remove all entries on Mr W's credit report relating to loan 3. Any information about this loan was likely to be adverse for Mr W.

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

My final decision

My final decision is that I uphold Mr W's complaint and direct Madison CF UK Limited to put things right as described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 4 August 2022.

Mark Richardson

Ombudsman