

The complaint

Mr H complains that Madison CF UK Limited trading as 118 118 Money (118) misled him over a refinanced loan.

What happened

In February 2020, Mr H borrowed £3,500 on a loan from 118. It was payable over 24 months. The interest rate was an APR of 99.9%. The total payable, including interest, was £6,616.56. Payments were £275.69 each month.

In April 2020, Mr H contacted 118 as he and his wife were struggling because of the effects of the pandemic. 118 agreed to a payment holiday of three months from April 2020 to June 2020. The payments for July 2020, and August 2020 were then made. At the end of August 2020, Mr H called 118 and said he couldn't pay the next instalment due on 1 September 2020. 118 agreed to a '30-day hold' – whereby the September 2020 payment wasn't made. So – there was then one-month arrears on the loan. The October 2020 payment was made.

At the start of November 2020, Mr H called 118 again and said that the family's income was still being affected by Covid-19 and asked for a further three-month payment holiday. 118 agreed to this. To do that, 118 repaid the old loan and provided a new loan over 22 months – with the first three months payments not to be made (because of the payment holiday). So – the loan was payable in 19 instalments. The new loan was for £3,068.67 with an APR of 99.9%. The total payable including interest was £6,147.83.

Mr H complained. He said that the new loan didn't take account of the payments he'd already made. And because the new loan was for a similar amount as the old loan, 118 had effectively 'swallowed' the payments he had made in 2020 before the old loan was refinanced. He said this was the case as both loans, including interest were for the same amount – about £6,000.

118 said that Mr H had been sent the loan documentation for the new loan and this spelt out its terms. He had been told that if he took a payment holiday, extra interest would be charged which would cost him more. He was given guidance as to what this might be. 118 said Mr H had signed the loan documentation and he was now outside the 14-day cooling off period. 118 felt they'd been supportive – they'd provided a payment holiday and they'd also given him other options if he was struggling to make repayments.

Mr H brought his complaint to us. Our investigator said 118 hadn't acted fairly. When Mr H called 118, he had said he was in financial difficulty and 118 should therefore not have given him a payment holiday, but instead should've asked more questions about Mr H's income and expenditure and put in place a longer term forbearance plan, including an interest – free arrangement or reduced monthly payments – rather than giving him another loan at a high interest rate. He said the interest on Mr H's loan should be refunded and compensation of £250 paid, and a suitable repayment plan agreed.

118 didn't agree and asked that an ombudsman look at Mr H's complaint.

I reached a provisional decision where I said:

The crux of Mr H's complaint is that he says 118 didn't treat him fairly when he asked for a second payment holiday in November 2020. He says that he ended up paying £1,000 more than he should have – as when the refinancing loan was put in place, it didn't take account of the payments he had made on the first loan.

In April 2020, The Financial Conduct Authority (FCA) announced guidance to lenders in response to the effects on customers of the COVID-19 pandemic. All lenders, including 118, had to put in place 'payment holidays' on many credit agreements, including personal loans – to help customers who were affected. Customers could ask for a total of two payment holidays each of three months – whereby payments could be suspended. Missed payments would not be reported to credit reference agencies, although interest would still be debited to the accounts. This support was provided by firms up to the end of October 2020.

The intention was to provide short term support – usually in cases where customers would be returning to work within a short period of time. And so – where a customer's situation was that they were in longer term difficulty, then payment holidays under this scheme weren't normally agreed.

In September 2020, the FCA announced that the support scheme would change from the end of October 2020. From then, firms could continue to support customers in difficulty – but it was down to their discretion and customers' circumstances. And so – Mr H's second payment holiday request was made in this period – so 118 could 'tailor' a support package for him.

I've looked what happened in the light of this. I've listened to the calls between Mr H and 118. On the first call – on 29 August 2020, Mr H explained that he needed to miss the next loan payment due on 1 September 2020. This was because he and his wife had a temporary drop in income due to Covid-19. Mr H told 118 that this was temporary and was "just for this month" and income "would then return to normal". The call handler said 118 could consider a further payment holiday extension – but this would mean Mr H would pay more interest in the long run. Instead, 118 agreed a 30-day 'hold' – whereby the September 2020 payment wasn't made and Mr H could then consider his situation.

The payment for 1 October 2020 was then made. And then Mr H called 118 again on 2 November 2020. He said that income was still being affected by Covid-19 and his wife had also been ill. Importantly, he said that his wife was due to get some furlough payments soon and he was also due to resume normal hours working shortly. 118 offered a further three- month payment holiday. 118 stated that the extension would mean that Mr H would pay more interest over the term of the new loan; and payments may increase by up to 25% as a result. By example, they said that his payments could go up to £344.61 a month if they went up by 25%. That was if the new loan was payable over 19 months (after the payment holiday of three months). Mr H agreed to the new loan and went through a brief affordability check – when he was asked "*are you at risk of redundancy?*". Mr H replied: "*no*". "*Is the new loan unaffordable?*". Mr H: "*no*". "*Are the increased payments affordable?*". Mr H: "*yes*". 118 then told Mr H to go online and look at the loan documentation and sign it if he was happy to do so.

Mr H called again on 4 November 2020. He set out his concerns – he said the payments he had already made on the original loan hadn't been taken into account and so all those payments had been 'lost'. 118's call handler said the loan terms were set out for Mr H to see - and he had signed the loan agreement. Having listened to the call, I think it would've been helpful if 118's call handler had listened to Mr H's points – and answered his

concerns on the call. If that had happened, I think it's likely that Mr H wouldn't have continued to think he had been treated unreasonably and wouldn't have complained.

And so – I've thought about whether 118 should've considered Mr H to be in long term financial difficulty - in which case 118 should've thought about options other than a payment holiday. For me, it's clear that Mr H said, and demonstrated, that his financial pressures were short term – he said he and his wife would return to normal work and earnings soon. And so – he wasn't saying he was in long term difficulty, and therefore a payment holiday was the right option for 118 to offer. So – I disagree with our investigator here.

Looking at the refinanced loan. I can see that the original loan was for £3,500 and after the addition of interest, £6,616.56 was payable over 24 months - payments were £275.69. Between the start of the loan in February 2020 and when it was repaid in November 2020 - I can see there were four payments made (as there was the three month payment holiday between April 2020 and June 2020, and the September 2020 payment wasn't made). So, in all, £1,102.76 was paid by Mr H in loan payments.

The new loan was for £3,068.67, plus interest of £3079.16 – a total of £6,147.83. And so, I can see that this is Mr H's argument – he is saying that the new loan should be of a lower amount than it was because of the payments he had made during the previous months.

Our service doesn't provide an audit /checking service but from my experience, the figures quoted look reasonable to me. I say that because of the way in which this type of loan works. It was a 'fixed sum' loan. And each payment (of £275.69) comprised of some capital repayment and some interest. And – it's a fact that in the early months of such a loan, each payment comprises of mostly interest and only a small amount of capital repayment. So, in the early stages of repayment, mostly interest is paid. So – Mr H wouldn't see the 'capital' amount of his loan reduce very much. And I can see that's what's happened here. The difference in the amount of the two loans was £431.33 – that is, the original loan of £3,500 less the new loan of £3,068.67. So – Mr H had paid off capital of £431.33. Mr H had made total payments between February 2020 and October 2020 of £1,102.76 (four payments of £275.69) – but the capital amount didn't go down by that amount because the four payments comprised more interest than capital.

Turning to the monthly repayments. They went up from £275.69 to £323.57. But that's largely because Mr H's original loan was payable over 24 months, and the new loan was payable over 19 months – so each payment was bound to be higher.

I agree that 118 did set out the figures, as they were required to do so under the consumer credit regulations, and Mr H had the opportunity to review them before he signed. But I hope that my explanation goes some way to helping Mr H understand what happened.

So – what I'm saying is that 118 didn't make any mistakes here. And in that respect, I disagree with our investigator. I noted that 118's final response said that all documentation was sent to Mr H – and he signed it. While I accept that was correct, I think it would've been helpful, and would've answered Mr H's complaint – if 118's response had gone further and set out more helpfully – and in simple terms - the answer to Mr H's complaint. I also listened to the third call between 118 and Mr H on 4 November 2020 – this was when he set out his complaint that he felt his payments had been 'taken' by 118 and 'lost'. 118 had the opportunity to deal with that then, on the call – but simply pointed to the fact that he had signed the documents. I can appreciate that since that time, Mr H has been worried that he was misled by 118 – and has been paying too much for his loan - when that wasn't the case.

And for that – I think it's reasonable that 118 pay an amount of compensation – of £100.

Responses to the provisional decision:

118 accepted the findings. Mr H didn't respond.

I now need to make a final decision.

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 118 accepted the provisional decision, and Mr H didn't respond, I won't be departing from it. And my final decision is therefore the same as set out in the provisional decision.

My final decision

I uphold this complaint. Madison CF UK Limited trading as 118 118 Money must:

- Pay compensation of £100 to Mr H for distress and inconvenience.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 22 August 2022.

Martin Lord
Ombudsman