

## The complaint

Mrs F complains through her representative that Madison CF UK Limited trading as 118 118 Money lent her money on high cost loans that she was unable to afford to repay.

## What happened

118 118 Money provided Mrs F with the following loans:

	Date	Amount	Term	Instalments*	When repaid
Loan 1	9/6/2019	£2,000	24 Months	£123	2/3/2020
Loan 2	29/9/2020	£2,000	24 Months	£132	Outstanding

\* rounded up

Mrs F says she took out the borrowing to consolidate some debts but couldn't afford the repayments. She ended up getting into difficulties with her utility payments which went onto a debt management plan, and she had to borrow money from her family to make ends meet. Her representative has provided bank statements around the period of the application for both loans

118 118 Money said it considered Mrs F's application in detail and carried out the usual verification checks, of her income and credit record. It assessed that both loans were affordable.

Our adjudicator said that for loan 1 Mrs F had several credit cards that were near their limit and had very recently taken out a large loan, indicating that she would struggle with the repayments. For loan 2 Mrs F had increased her credit debts and had taken out a large high purchase loan, so the checks would have shown that she wouldn't be able to afford the repayments.

118 118 Money said it disagreed with the view concerning loan 1. It said it was struggling to understand the adjudicator's logic around the disposable income (which had been assessed at £2,186) and it also confirmed that the customer was spending less than 25% of her income on unsecured debt repayments. There was nothing on the credit file that would have triggered it to complete more checks.

I issued a provisional decision, confirming that I assumed that 118 118 Money agreed with the adjudicator's view concerning loan 2. In respect of loan 1, I proposed not to uphold the complaint concerning it. I said from the evidence supplied that it was reasonable to assess that loan as being affordable.

118 118 Money accepted my provisional findings. Neither Mrs F nor her representative have made any 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.

The following were my provisional findings:

*"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 Mrs F would be able to repay the loans in a sustainable way?*
- *If not, would those checks have shown that Mrs F 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 Mrs F'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 Mrs F undue difficulty or significant adverse consequences. That means she 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 she had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on her 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 Mrs F. 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 a reasonable and proportionate 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).*

## *loan 1*

*As regards 118 118 Money's checks, I take issue here with the assessment of Mrs F's outgoings. These were assessed at being just £100 rent, and no other expenses. If it was assumed that Mrs F had a partner to pay the bills, none of that was recorded, nor was any attempt made to establish whether the bills were in Mrs F's name. She refers in her complaint to having to pay various utility bills, but I don't know what information 118 118 Money had about that at the time. With Mrs F's monthly income being assessed at £2,286, I don't think the figure of £2,186 for Mrs F's disposable income at the time was realistic.*

*Without any other information concerning her outgoings I think it fair to apply ONS (Office for National Statistics) data which says that the average outgoings of a householder are about 35% of their income. In Mrs F's case that produces a figure of £800. However, adding that to her credit commitments and the new loan instalment this still would have left a monthly disposable income figure of over £1,000, which does indicate that the loan was affordable.*

*The other figure to consider is the proportion of Mrs F's income she would have spent on credit commitments after the loan was issued. This would have been about 20% of her monthly income, again a figure which indicated that the new loan was affordable.*

*I have considered the point that Mrs F had a lot of credit card debt. She did have five credit cards, but the total credit card debt was around £1,635, which wasn't in my view particularly high.*

*I don't think that the checks 118 118 Money did would have alerted it to carry out any further investigation of Mrs F's finances. But if it had decided to do this and considered her bank statements, I don't think the statements Mrs F has produced from around the time of the loan revealed any particular concerns. She didn't appear to be overdrawn nor were her outgoings unusually high.*

*So, I think that this loan was fairly assessed as being affordable and that 118 118 Money made a fair lending decision.*

## *loan 2*

*118 118 Money has accepted the adjudicator's view in respect of this loan. I won't make any detailed comment except to say that I agree with the adjudicator's approach in respect of this loan. Mrs F's credit commitments had increased considerably without any increase in income."*

As neither party has made any further comments, my provisional findings are now final and form part of this final decision.

## **Putting things right**

Mrs F has had the capital sum for loan 2 and it's fair that she repays this. So I will require 118 118 Money to do the following:

- Remove all interest, fees and charges applied to the loan.
- Treat any payments made by Mrs F as payments towards the capital amount.
- If Mrs F has paid more than the capital, refund any overpayments to her with 8% simple interest\* from the date they were paid to the date of settlement.

- But if there's still an outstanding balance, 118 118 Money should come to a reasonable repayment plan with Mrs F.
- Remove any adverse information about loan 2 from Mrs F's credit file.

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

### **My final decision**

I don't uphold the complaint concerning loan 1.

I uphold the complaint concerning loan 2 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 Mrs F to accept or reject my decision before 23 August 2022.

Ray Lawley  
**Ombudsman**