

The complaint

Mr M complains about two loans provided to him by Madison CF UK Limited, trading as 118 118 Money, ("118 118"), which he says were unaffordable.

What happened

118 118 agreed two loans for Mr M. Loan 1 was for £1,000 and was taken out in December 2020. Loan 2 was for £3,000 and was taken out in January 2022. From the most recent information I've seen, it appears that Loan 2 hasn't been repaid. 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.	5/12/2020	December 2021	£1,000	£105.66	12
2.	15/1/2022	Unpaid	£3,000	£212.78	24

Mr M says that he is in great financial difficulties due to the loans.

Our adjudicator recommended that Mr M's complaint should be upheld. He said that the results of 118 118's checks showed that Mr M was already paying over £1,900 towards his regular credit payments for Loan 1 and over £3,000 for Loan 2. Both of these figures were much higher than those 118 118 had used in its calculations and both represented a significant proportion of his income. In these circumstances, the adjudicator said there was a significant risk that Mr M wouldn't have been able to meet his existing commitments without having to borrow again. And on both occasions, he would have been left with a negative disposable income. So, the adjudicator thought it was unlikely that Mr M would've been able to sustainably meet his repayments for either loan, and the decisions to lend were unfair.

118 118 disagreed and responded to the adjudicator's view by querying his calculations of Mr M's credit commitments. The adjudicator forwarded his calculations to the lender. The lender responded to say that whilst 118 118's credit checks showed the payment frequency as weekly, the balance movement was reflective of monthly payments. 118 118 also said that an ombudsman in another case with the same lender had noted that confusion had been caused in that case as the credit report showed the credit commitments as weekly. But the same credit report also showed the total commitments as a monthly figure. The lender in that case had treated the repayment amount as a monthly commitment and the ombudsman thought it was right to do so. 118 118 asked for Mr M's complaint to be referred to an ombudsman.

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

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.

118 118 has referred to another decision of this Service. However, as 118 118 knows, we assess each case on its own merits.

When 118 118 lent to Mr M, the regulator was the Financial Conduct Authority and relevant regulations and guidance included its Consumer Credit Sourcebook.

118 118 will be aware of the relevant regulations and how we consider irresponsible lending complaints, so I won't go into detail on these points.

I've thought about whether 118 118 completed reasonable and proportionate checks when assessing Mr M's applications to satisfy itself that he would be able to make his repayments without experiencing adverse consequences. I've thought about the information it knew, and what it ought reasonably to have known.

Loan 1

Loan 1 was for £1,000. I note that 118 118 gathered some information about Mr M's income, rent and expenditure. It also carried out a credit check.

118 118's application details show Mr M's income as £2,286, his rent as around £326, and his living costs as around £506. 118 118 said it assessed Mr M's credit expenditure from his credit file and it said his monthly credit commitments were £578.

I've reviewed 118 118's credit checks. I note that these showed that Mr M had 13 active credit accounts and his total credit balance was around £10,100. I think the results of 118 118's credit checks ought to have caused it some concerns as Mr M appears to have taken out seven loans totalling almost £3,000 in the seven months prior to the loan application. I can also see that the balance on Mr M's credit card was just four pounds short of its credit limit. Mr M had also missed a payment around two months prior to the loan application on a high cost long term loan. I think the credit checks suggest that Mr M's finances were under pressure.

I also note that there was some confusion over whether the credit repayment amounts shown in the credit checks were weekly or monthly. At the very least, I would have reasonably expected 118 118 to have taken steps to gather more information about Mr M's actual monthly repayment amounts if these were ambiguous from the credit checks.

In addition as Mr M's finances appeared to be strained from the credit checks, I think B needed to verify Mr M's income and actual monthly regular expenditure to gain a more thorough understanding of his financial position in order to satisfy itself that he could repay the loan without having to borrow again. 118 118 didn't say that it took steps to do this.

Mr M was entering into a significant commitment with 118 118. He would need to make monthly repayments of around £106 for 12 months. Given the length of time Mr M was committing to repay the credit and what 118 118 would have likely seen on its credit checks, I don't think its checks were sufficient for 118 118 to get a clear picture of Mr M's finances at the time.

But although I think 118 118 should have asked for some additional information before agreeing the loan, that in itself doesn't mean that Mr M's complaint should succeed. I'd also

need to be persuaded that any further information would have suggested to 118 118 that Mr M couldn't repay the loan without the repayments having a significant adverse impact on his financial situation.

I note that the adjudicator reached his conclusions about the high amount of Mr M's credit commitments after reviewing 118 118's credit checks. The lender queried the adjudicator's calculations as it thought that the adjudicator had used some weekly rather than monthly repayment amounts in his calculations. I thought obtaining Mr M's current account statements from around the time of the loans would provide a more accurate picture of his monthly credit commitments. So, I asked the adjudicator to ask Mr M to provide his current account statements from around the time of the loans. I've reviewed these to give me the best picture of what the lender should have seen, although I'm not suggesting here that these are the checks that 118 118 should have done. I also asked the adjudicator to ask Mr M for some more information about his financial situation.

I've reviewed Mr M's current account statements for October 2020 and November 2020. It appears that his average monthly income was around £1,968. The statements suggest that Mr M was struggling to manage his finances. He was repaying at least three payday loans, a high cost credit loan, two credit union loans and a loan from a friend. Some of the credit was being repaid weekly. I've calculated that the monthly credit commitments were around between £1,530 and £1,900 in those months and so represented a significant proportion of Mr M's income. I also note that in October 2020, Mr M had taken out a new payday loan for £150 and he'd also taken out a loan of £500 from a credit union in the following month to support his income. And I can see from the statements that the total of Mr M's credit commitments and identifiable regular living costs exceeded his monthly income in both months.

So, if 118 118 had carried out further checks, I think it's likely it would have discovered the full extent of Mr M's financial commitments which were much higher than the amount it had used in its calculations. I think 118 118 ought reasonably to have realised that Mr M was over committed financially and that he was having significant difficulties managing his finances. I think there was a very real prospect that Mr M would need to borrow again in order to repay his new loan and that would likely have a significant adverse effect on his financial situation.

So, I think 118 118 should reasonably have concluded that it made an unfair lending decision when it agreed to lend Loan 1 to him.

Loan 2

I can see that Mr M repaid Loan 1 in December 2021 and the following month he borrowed Loan 2 which was for the higher amount of £3,000. The new monthly repayment had more than doubled and was to be repaid over two years.

118 118's application details show Mr M's income as £2,177, his rent as around £242, and his living costs as around £603. 118 118 said it assessed Mr M's credit expenditure from his credit file and it said his monthly credit commitments were £877.

I've reviewed 118 118's credit checks. I note that these showed that Mr M had 13 active credit accounts and his total credit balance was around £9,600. I think the results of the lender's credit checks ought again to have caused it some concerns as Mr M appears to have taken out seven loans, including short term loans, totalling around £13,600 in the 12 months prior to the loan application. I can also see that he'd taken out two credit cards in that period and was borrowing cash advances on those cards which might suggest that his

financial situation was strained. He was also still repaying loans borrowed in previous years. Again, I would have reasonably expected 118 118 to have taken steps to gather more information about Mr M's actual monthly repayment amounts if these were ambiguous from the credit checks.

I think the credit checks suggest that Mr M's finances were still under pressure and I would have reasonably expected 118 118 to have taken steps to verify Mr M's income and actual monthly regular expenditure to gain a more thorough understanding of his financial position in order to satisfy itself that he could repay the loan without him having to borrow again. 118 118 didn't say that it took steps to do this.

Mr M was entering into a significant commitment with 118 118. He would need to make monthly repayments of around £213 for 24 months. Given the length of time Mr M was committing to repay the credit and what 118 118 would have likely seen on its credit checks, I don't think its checks were sufficient for 118 118 to get a clear picture of Mr M's finances at the time.

I've gone on to consider whether further information would more likely than not have shown 118 118 that Mr M would be able to make the loan payments over the loan term without adverse consequences.

Mr M provided his bank statements from around the time of Loan 2 to this Service. I've reviewed these for November 2021 and December 2021. I can see that his financial situation was, if anything, worse than at the time of his application for Loan 1. Most of the credit was being repaid weekly. I've calculated that the total regular monthly credit commitments were at least around £1,900 in those months and so again represented a significant proportion of Mr M's income. And again, I can see that Mr M's credit commitments and identifiable living costs were greater than his monthly income. He'd also taken out further short term loans totalling £900 to support his income.

So, if 118 118 had carried out further checks, I think it's likely it would have discovered the full extent of Mr M's financial commitments which were much higher than the amount it had used in its calculations. Again I think 118 118 ought reasonably to have realised that Mr M was over committed financially and that it was unlikely that Mr M would've been able to repay Loan 2 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.

So, I think 118 118 should reasonably have concluded that it made an unfair lending decision when it agreed to lend Loan 2 to Mr M.

So, I'm upholding Mr M's complaint and 118 118 should put things right as follows.

Putting things right – what 118 118 needs to do

I understand that Mr M has repaid Loan 1, and that Loan 2 hasn't been fully repaid.

If 118 118 has sold the outstanding debt it should buy this back if it is able to do so and then take the following steps. If it isn't able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below.

A) Add together the total of the repayments made by Mr M towards interest, fees and charges on Loan 1.

B) Calculate 8% simple interest* on the individual payments made by Mr M which were considered as part of "A", calculated from the date Mr M originally made the payments,

to the date the complaint is settled.

C) Remove all interest, fees and charges from the balance on Loan 2, and treat any repayments made by Mr M as though they had been repayments of the principal on Loan 2. If this results in Mr M having made overpayments, then 118 118 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. 118 118 should then refund the amounts calculated in “A” and “B” and move to step “E”.

D) If there is still an outstanding balance then the amounts calculated in “A” and “B” should be used to repay any balance remaining on Loan 2 and any principal 118 118 has already written-off. If this results in a surplus, then the surplus should be paid to Mr M. However, if there is still an outstanding balance then 118 118 should try to agree an affordable repayment plan with Mr M. 118 118 shouldn’t pursue outstanding balances made up of principal it has already written-off.

E) Remove any adverse information recorded on Mr M’s credit file in relation to the loans.

*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.

My final decision

My decision is that I uphold this complaint. In full and final settlement of this complaint, I order Madison CF UK Limited, trading as 118 118 Money, to take the steps 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 9 December 2022.

Roslyn Rawson

Ombudsman