

## The complaint

Miss H, through her representative, complains that Madison CF UK Limited, trading as 118 118 Money, lent to her when she could not afford it. Miss H says that she had to borrow to make the Madison repayments.

## What happened

Using information from Madison here is a brief loan table.

Date taken	Total Amount due to Madison	Term	Monthly repayment	Amount received by Miss H	Date repaid
30/08/2016	£2,891.04	24 months	£120.46	£1,500.00	15/12/2017
Gap in the lending					
29/07/2018	£1,685.70	18 months	£93.65	£1,000.00	28/09/2018
18/11/2018	£1,891.20	24 months	£78.80	£1,000.00	22/02/2019

After Miss H had complained, Madison sent to her its final response (FRL) in which it did not uphold her complaint. Miss H referred her complaint to the Financial Ombudsman Service where one of our adjudicators looked at it. His view was that Madison ought not to have lent to Miss H at all but Madison disagreed.

The unresolved complaint was passed to me to decide. I issued a provisional decision on 20 September 2022 in which I gave reasons why I considered that Madison ought to put things right for Ms H for loan 1 but not loans 2 and 3.

Both parties were given time to come back to me and both have replied to say that they accept my provisional decision.

So, what is set out below is my final decision which is the same outcome based on the same reasoning as that given in my provisional 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.

We've set out our general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance and good industry practice - on our website.

Considering the relevant rules, guidance and good industry practice, what I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are whether Madison completed reasonable and proportionate checks to satisfy itself that Miss H would be able to repay in a sustainable way? And, if not, would those checks have shown that Miss H would've been able to do so?

If I determine that Madison did not act fairly and reasonably in its dealings with Miss H and that he has lost out as a result, I will go on to consider what is fair compensation.

The rules and regulations in place required Madison to carry out a reasonable and proportionate assessment of Miss H's ability to make the repayments under this agreement. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so Madison had to think about whether repaying the loan would be sustainable and/or cause significant adverse consequences for Miss H. In practice this meant that Madison had to ensure that making the payments to the loan wouldn't cause Miss H undue difficulty or significant adverse consequences.

In other words, it wasn't enough for Madison to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Miss H. 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 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 of time 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).

Following my provisional decision, I've carefully reconsidered all the arguments, evidence and information provided in this context and what this all means for Miss H's complaint.

I do not consider that Madison ought to have lent to Miss H for loan 1. But there was a significant gap before Miss H applied for loan 2 which I do not think our adjudicator addressed. I think it was enough of a gap for me to consider it reasonable that Madison approached Miss H as a new customer for loan 2.

I also think that for loans 2 and 3, Madison's checks were proportionate and it lent responsibly. I explain in more detail [here](#) - this final decision contains all the findings I made in my provisional decision.

### Loan 1

Miss H had declared to Madison her income and her expenditure. For a new customer I think that it could have relied on the information it had from Miss H together with its own research such as the credit search it carried out. But, Miss H was applying for a £3,500 loan and there are some details in that credit search Madison carried out which I would have expected it to have picked up on and factor into Miss H's application.

In fact – I think it may have done this, as it reduced the amount it was willing to lend to £1,500. But reducing the amount of a loan is not necessarily the right approach if Madison may have considered that her credit situation was challenging – as I think it was when she applied in August 2016.

I know that Miss H has sent to us bank account statements but I agree with Madison I would not always expect a lender to ask to look at and review bank statements. Here I did use them to identify an entry on the credit search results which was listed as an 'Advance against Income'. I could see Miss H had taken it a couple of months before applying for the first Madison loan. It had not been paid off and was increasing in its balance since June 2016 to August 2016. And it is this entry which is one of the factors that has led me to conclude that Miss H would have found it challenging to repay to Madison loan 1.

The nature of that Advance against income loan was that usually it is repaid quickly and I could see that the £300 loan which was advanced to her on 16 June 2016 had increased to £376 and the account had been updated on the credit file on 1 August 2016 so this was a very up-to-date record. Either Miss H was not repaying it or still had it ahead of her to repay. Either way this was a significant loan to take account of before lending.

In addition to this, our adjudicator was correct when he identified that Miss H was over her credit limit on her overdraft and on at least one credit card. Miss H's application had been for a £3,500 loan and Miss H had declared her income was £1,493 and gave the following as her monthly expenditure:

Home costs £462, council tax £98, utilities £69, food £100, card and loan payments £165.

I think those figures looked broadly correct save that the Advance against income loan was going to cost her a lot more – around £376 – and her declaration of £100 a month for food was far too low to be believable.

And the fact that Miss H was over her limit on her overdraft and on at least one credit card suggests to me that she actually had no spare cash at all and no available credit space to be able to repay Madison £120 a month over 24 months.

I uphold Miss H's complaint about loan 1.

### Loans 2 and 3.

As I have said earlier, there was a significant gap between Loan 1 being repaid early (it was repaid after 14 months rather than 24 months) and loan 2. Notionally I think that Madison would have acted reasonably to treat Miss H as a new customer when she came back for loan 2.

Miss H was applying for £1,000 over 18 months and I think it was fine for Madison to have relied on the information Miss H gave to it together with its own research. Miss H had

declared an income of around £1,290 and her monthly outgoings looked broadly correct. And I say this because although she had taken on a second residential mortgage, her other loan and credit commitments were very low – around £361 of total balances on loans and instalment credit accounts. This was information taken from the credit search Madison carried out.

And although her declared monthly food cost of £60 was far too low to be believable, even if Madison had increased that figure a great deal, still I think Miss H was in a position where I think Madison would have realised she could afford the repayments of around £93 a month after having carried out proportionate checks.

So, I do not to uphold Miss H's complaint about loan 2.

Loan 2 was paid off after a couple of months - 16 months earlier than scheduled.

As for loan 3, it was applied for just a couple of months after repaying loan 2. And it was an application for the same amount - £1,000 – albeit over a longer period of 24 months. But the information Miss H gave to Madison plus its own credit search would have been enough and I think it carried out a proportionate check.

That credit search did reveal that her loans balance had increased but her overdraft had been extinguished and she had reduced her overdraft limit to £50. I consider that to have been a deliberate reduction of that debt and a positive change.

And reviewing the credit search results I think that Madison was correct to have calculated that Miss H would have been able to afford the third loan at £78 a month. One additional aspect I think it would have been correct for Madison to have considered before approving loan 3 was that Miss H had repaid loan 2 early.

So, I do not to uphold Miss H's complaint about loan 3.

As I outlined at the beginning of this decision, both parties have agreed with the outcome I gave in my provisional decision. So, this is my final decision and is the same outcome for the same reasons.

### **Putting things right**

I direct that Madison puts things right for Miss H for loan 1 only. I understand that all three loans have been repaid. It should:

- refund all interest and charges Miss H paid on loan 1
- pay interest of 8% simple a year on any refunded interest\* and charges from the date they were paid (if they were) to the date of settlement;
- remove any negative payment information about loan 1 from Miss H's credit file.

\*HM Revenue & Customs requires Madison to take off tax from this interest. It must give Miss H a certificate showing how much tax it's taken off if she asks for one.

### **My final decision**

My final decision is that I uphold Miss H's complaint in part and I direct that Madison CF UK Ltd does as I have outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 1 November 2022.

Rachael Williams  
**Ombudsman**