

The complaint

Mr S complains that Madison CF UK Limited trading as 118 118 Money irresponsibly lent to him.

What happened

118 118 Money provided Mr S with a loan of £3,000 on 5 January 2019, repayable over 24 months at the monthly rate of £235.87. Mr S got into difficulties over repayment, and effectively he couldn't make any payments after April 2019, the payments made failed or were returned. The loan was sold to a third party in September 2019. He complained to 118 118 Money about irresponsible lending.

118 118 Money said it reviewed his application which contained details of his income and expenditure and used standard industry verification checks to validate that information. It also carried out a credit check and used the amounts disclosed from that along with reasonable average expenditure figures. It assessed that the loan was affordable, at the time of the application.

On referral to the Financial Ombudsman Service our adjudicator said that based on the evidence submitted so far, he thought the loan was both affordable and suitable for Mr S.

Mr S didn't agree. He said he had adverse credit, missed payments and some defaults. He also said his income was less than his outgoings and he'd never been asked for any evidence of income.

The matter has been passed to me for further consideration

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, 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 Mr S would be able to repay the loan in a sustainable way?
- If not, would those checks have shown that Mr S 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 Mr S's ability to make the repayments under the agreement. 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 loan would be sustainable. In practice this meant that 118 118 Money had to ensure that making the repayments on the loan wouldn’t cause Mr S undue difficulty or significant adverse consequences. That means he 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 he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his 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 Mr S. 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 such a 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).

The credit report obtained by 118 118 Money at the time of Mr S’s application showed that he had two credit cards with total balances of £920, two mail order accounts with total balances of £594, and a credit sale with £338 outstanding. The only active account with payments missed was one of the credit cards with a £195 balance. I also see that Mr S had had a Hire Purchase (HP) loan on which he’d recently missed payments but that been paid off in full the month before his application to 118 118 Money by, he tells us, his partner.

It’s important to note that these loans aren’t generally for people with good credit records. So it should be expected that there might be some issues on Mr S’s credit record. But in assessing affordability only active accounts would have been relevant and therefore taken into consideration. On the basis of the credit report I calculate that Mr S would have been spending about £132 a month on the credit commitments shown in the report. With the new loan payments added this would have been about 18-19% of his income, which should have been affordable.

A credit report won’t necessarily show every credit account especially where any such account may have been taken out recently. It will then be up to the consumer to declare this.

On the question of income I’ve noted that 118 118 Money carried out “standard industry verification checks”. This would mean Mr S’s income was independently verified. In any event that appears to be the figure Mr S declared, and I haven’t seen any evidence to show that was wrong.

In respect of expenditure, 118 118 Money assessed this using the figures in Mr S’s

application. It also used reasonable average expenditure figures. The rules say that a business can do this unless there was some indication that standard figures wouldn't be appropriate. Here I've noted that the credit report showed that Mr S had a small overdraft of £39. If Mr S were struggling to pay his debts, I would have expected that figure to be much larger.

I've said that 118 118 Money's checks had to be proportionate, that is it should carry out necessary checks to assess the affordability of the loan. It's not usually required to carry out a detailed financial investigation. If its checks indicate that there might be a problem e.g. large amounts of outstanding credit or a high overdraft near or over the limit, then it should be alerted to obtain further information. I haven't seen anything in this case which might have alerted 118 118 Money to do that.

So I think 118 118 Money carried out proportionate checks and that it made a fair lending decision.

My final decision

I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 23 December 2022.

Ray Lawley
Ombudsman