

The complaint

Miss D complains about two loans provided to her by Madison CF UK Limited, trading as 118 118 Money, ("118 118 Money"), which she says were unaffordable.

What happened

118 118 Money agreed two loans for Miss D. Loan 1 was for £2,000 and taken out in September 2020. Loan 2 was for £4,286.48 and taken out in August 2021. Loan 2 was used to repay Loan 1, but it appears that Loan 2 hasn't been repaid and has been sold to a third party ("T"). Some of the information 118 118 Money provided about the loans is shown in the table below.

Loan number	Start date	End date	Loan amount	Monthly repayments	Term (months)
1.	25/9/2020	5/8/2021	£2,000	£148.13	18
2.	5/8/2021	Unpaid	£4,286.48	£141.16	60

Miss D says that 118 118 Money should never have given her these unaffordable loans. And if 118 118 Money had made the appropriate checks prior to issuing her with the loans, it would have seen that she had a high-cost car finance loan repayment, she had maxed out two credit cards and store credit and had taken out another loan in May 2020. A credit check would have shown that her finance had got worse since Loan 1. 118 118 Money didn't ask if her income or expenses had changed when she applied for Loan 2.

Our adjudicator's view

Our adjudicator didn't recommend that Miss D's complaint should be upheld. He said that the lender should've taken steps to build a more detailed picture of her financial situation. The adjudicator had looked at the information Miss D had sent to us and considered whether 118 118 Money would've done anything differently had it seen this information before lending to her. But based on this information, he hadn't seen anything which suggested that the lender would've concluded that Miss D wouldn't have been able to have sustainably repaid these loans.

Miss D disagreed and responded to the adjudicator's view by saying that 118 118 Money didn't act responsibly, and it had given her a loan that she couldn't afford in the long run. At the time Loan 2 was issued, she was unemployed and on benefits. In July 2021, she had to take out a loan of £1,300 to survive and pay her bills as she had lost her job. 118 118 Money didn't ask if her income and expenses had changed. It also didn't ask for proof of bank statements to check if the new repayments were affordable. She struggled to repay Loan 1 and she couldn't keep up with the repayments on Loan 2.

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

my provisional decision

After considering all the evidence, I issued a provisional decision on this complaint to Miss D and to 118 118 Money on 1 September 2022. I summarise my findings:

I noted that when 118 118 Money lent to Miss D the regulator was the Financial Conduct Authority and relevant regulations and guidance included its Consumer Credit Sourcebook.

I said that 118 118 Money would be aware of the relevant regulations and how we considered irresponsible lending complaints, so I wouldn't go into detail on these points.

I'd thought about whether 118 118 Money completed reasonable and proportionate checks when assessing Miss D's applications to satisfy itself that she would be able to make her repayments without experiencing adverse consequences. I'd thought about the information it knew, and what it ought reasonably to have known.

Loan 1

Loan 1 was for £2,000. The interest rate was 37.7%, (44.9% APR). If Miss D made each payment when it was due, she'd pay £2,666.34 in total. Loan 1 was repaid in August 2021. I'd noted that 118 118 Money had gathered some information from Miss D about her income and expenditure. It had also carried out a credit check.

Miss D had told 118 118 Money her monthly income was £1,918. Her rent was around £342, and her living costs were around £539. 118 118 Money said it assessed Miss D's credit expenditure from her credit file and it said her monthly credit commitments were £491.

I'd reviewed 118 118 Money's credit checks. I'd noted that these showed that Miss D had ten active credit accounts and her total credit balance was around £18,000. I thought the results of 118 118 Money's credit checks ought to have caused it some concerns as Miss D had taken out a loan of around £4,235 just four months earlier. I could also see that around the same time Miss D had repaid £1,850 to two credit cards. At the very least I would have reasonably expected 118 118 Money to have taken steps to verify Miss D's income and actual monthly expenditure to gain a more thorough understanding of her financial position in order to satisfy itself that she could repay the loan without Miss D having to borrow again. 118 118 Money didn't say that it took steps to do this.

118 118 Money's affordability assessment wasn't tailored to Miss D and I thought it should have been in her circumstances. Miss D was entering into a significant commitment with 118 118 Money. She would need to make monthly repayments of around £148 for 18 months. Given the length of time Miss D was committing to repay the credit and what 118 118 Money would have likely seen on its credit checks, I didn't think its checks were sufficient for 118 118 Money to get a clear picture of Miss D's finances at the time.

118 118 Money needed to do more than just ascertain whether the loan repayments were technically affordable on a strict pounds and pence calculation. It could have done this by, for example, requesting bank statements from Miss D, asking for copies of bills and/or receipts for her expenses. I couldn't see that 118 118 Money had taken steps to do this.

But although I thought 118 118 Money should have asked for some additional information before agreeing the loan, that in itself didn't mean that Miss D's complaint should succeed. I also needed to be persuaded that any further information would have shown 118 118 Money that Miss D couldn't repay the loan without the repayments having a significant adverse impact on her financial situation.

Miss D had provided this Service with her bank statements from around the time of Loan 1. I'd reviewed these to give me the best picture of what the lender should have seen, although I wasn't suggesting that these were the checks that 118 118 Money should have done.

I'd noted that Miss D's income was less than she'd declared to 118 118 Money and the living costs and credit commitments on the bank statements were higher than the amounts the lender provided to this Service. The account didn't go overdrawn and I could see that Miss D received transfers from other accounts when she was near to going overdrawn. I'd also noted that Miss D was able to save £200 each month. Overall, I didn't think the account was showing signs of financial distress. The statements didn't show any apparent issues such as significant gambling or short term loans. I didn't think they would have caused 118 118 Money serious concerns if the lender had seen them.

So, from the information I'd seen, I didn't think better checks by 118 118 Money would have uncovered anything that would have shown that Miss D might have difficulty repaying Loan 1. Looking at the statements, there was nothing to suggest to me that Miss D was at this stage dependent on credit or that she was having problems managing her finances.

So, looking at everything in the round, I hadn't seen enough to find that 118 118 Money ought to have declined to lend Loan 1 to Miss D and I wasn't persuaded that 118 118 Money lent irresponsibly on this occasion.

Loan 2

Loan 2 was for £4,286.48 and 118 118 Money used £1,036.48 from this amount to repay Loan 1. The interest rate was 31.1%, (35.9% APR). If Miss D made each payment when it was due, she'd pay £8,469.60 in total.

118 118 Money hadn't provided this Service with details of any information it obtained from Miss D at the time of her application about her income and expenditure. I'd noted that Miss D said she wasn't asked to provide updated information. I didn't think it was sufficient for 118 118 Money to rely on the information Miss D provided almost a year earlier.

I could see that 118 118 Money did carry out a credit check and that Miss D's total credit balance had increased to £24,308. She now had 13 active accounts and had opened two new accounts in the six months prior to the credit check. I could see that a mail order balance which was £243 at the time of Loan 1 had now increased to £7,878 and had been near its credit limit since February 2021. I'd also noted that the balance on a credit card of £1,733 was near its credit limit. Altogether I thought that the results of 118 118 Money's credit checks ought to have caused it some concerns as they suggested that Miss D's finances were under pressure as shown especially by her significantly increased total credit balance and the balances on two accounts being near their respective limits.

So, I didn't think that the checks 118 118 Money did before Loan 2 were enough, and I've gone on to consider whether further information would more likely than not have shown 118 118 Money that Miss D would be able to make the loan payments over the loan term without adverse consequences.

Miss D had provided her bank statements from around the time of Loan 2 to this Service. I've reviewed Miss D's bank statements and could see that at the time of Loan 2 she was no longer in receipt of the income from the employers I'd seen on previous statements, and that she was in receipt of Universal Credit which wasn't sufficient to cover her rent, regular living costs and credit commitments. So, I didn't think that further checks would have provided the assurance 118 118 Money needed. And I thought if 118 118 Money had made better checks it ought reasonably to have realised that it was unlikely that Miss D would've been able to

repay Loan 2 without her having to borrow to meet the repayments, without her failing to make any other repayment she had a contractual or statutory duty to make, and without the repayments having a significant adverse effect on her financial situation.

So, I thought 118 118 Money should reasonably have concluded that it made an unfair lending decision when it agreed to lend Loan 2 to Miss D. And, subject to any further representations by Miss D or 118 118 Money, I intended to uphold Miss D's complaint in part and say that 118 118 Money should put things right as follows.

Putting things right – what 118 118 Money needs to do

I understand that 118 118 Money has sold the outstanding debt on Loan 2 to T. It should buy this back if it is able to do so and then take the following steps. If 118 118 Money isn't able to buy the debt back, then it should liaise with T to achieve the results outlined below.

118 118 Money should put things right for Miss D as follows.

- 118 118 Money needs to ensure that Miss D only repays the principal borrowed of £4,286.48 on the loan. In other words, she should not pay any interest or charges for Loan 2. So, 118 118 Money should remove all interest, fees and charges applied to the account from when it was opened.
- Treat any repayments made by Miss D as though they had been repayments of the principal on Loan 2.
- If this results in Miss D having made overpayments, then 118 118 Money 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.
- If an outstanding balance remains then 118 118 Money should try to agree an affordable repayment plan with Miss D, bearing in mind its obligation to treat her positively and sympathetically in these discussions.
- Remove any adverse information recorded on Miss D's credit file as a result of the loan.

*HM Revenue & Customs requires 118 118 Money to take off tax from this interest.

118 118 Money must give Miss D a certificate showing how much tax it has taken off if she asks for one.

Miss D responded to the provisional decision to say that she was satisfied with the outcome but she couldn't afford to repay 118 118 Money in her current circumstances.

118 118 Money hasn't provided a response to 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.

I have also taken into account the law, any relevant regulatory rules and good industry practice at the time.

Given that Miss D is satisfied with the outcome and 118 118 Money has given me nothing further to consider, I see no reason to depart from the conclusions I reached in my

provisional decision. It follows that I uphold this complaint in part and require 118 118 Money to take the steps set out above under the heading "Putting things right - what 118 118 Money needs to do".

As Miss D has told this Service that she cannot afford to repay 118 118 Money, I would remind the lender of its obligation to treat Miss D positively and sympathetically in relation to her financial difficulties.

My final decision

My decision is that I uphold this complaint in part. 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 Money needs to do".

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 28 October 2022.

Roslyn Rawson

Ombudsman