

## **The complaint**

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

## **What happened**

Madison approved one loan for Mr S on 10 July 2020 for £1,000 plus interest repayable over 24 months at £78.11 each month. He paid it off early in October 2021 with a lump payment of around £608.

After Madison's final response letter did not uphold his complaint, Mr S referred it to the Financial Ombudsman Service.

One of our adjudicators thought that at the time the loan was approved the repayment for this loan, in addition to Mr S' existing credit commitments represented a significant proportion of his income. In these circumstances, there was a significant risk that he wouldn't have been able to meet his existing commitments without having to borrow again.

Mr S agreed to this outcome and Madison did not respond. The unresolved complaint was passed to me to decide.

## **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.

Taking into account 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 Mr S would be able to repay in a sustainable way? And, if not, would those checks have shown that Mr S would've been able to do so?

If I determine that Madison did not act fairly and reasonably in its dealings with Mr S 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 Mr S'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 Mr S. In practice this meant that Madison had to ensure that making the payments to the loan wouldn't cause Mr S 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 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 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).

I've carefully considered all the arguments, evidence and information provided in this context and what this all means for Mr S's complaint.

I have decided to uphold the complaint and for the same reasons as our adjudicator.

Madison had Mr S' details from his application which was that he earned £2,500 a month and was living at home with his parents and so his outgoings were relatively low for household expenditure - £200 each month. He also declared insurance costs of £110 plus £900 a month for 'cards and loans'. And the credit file Madison obtained at the time, a copy of which has been sent to me, shows the following details which I have summarised:

- £8,000 debt balance on credit cards and going through the lists of his credit cards then some were at a zero balance and some were at their limits. Either way it was noticeable Mr S was repaying his cards at minimum payments only and that rate was around 3%. So, calculating what Mr S had to pay just to his credit cards was around £240 each month at that rate of 3% - which I think was a modest rate. Usually I'd calculate that to be 3.5% or 5%. But I have used this lower figure of £240 a month (3%) for this decision
- Hire purchase with a £14,000 balance and costing £276 each month
- Other loans which all together came to around £25,000 and was costing Mr S about £621 each month

So, Mr S' declaration of around £900 a month on cards and loans was about right. I add it up to be around £1,137 (cards and HP and loans). Add to this the £78 a month for the Madison loan and it's clear that Mr S would have been repaying around £1,215 each month on all his credit commitments.

This information was known to Madison at the time and represented about 48% of Mr S' declared net income. This was too high a proportion of his income to be sustainable.

I uphold Mr S' complaint.

### **Putting things right**

Mr S has had the capital payment in respect of the loans, so it's fair that he should repay this. So far as the loan is concerned, I think Madison should refund all interest and charges as follows:

- remove all interest, fees and charges applied to the loan.
- treat any payments made by Mr S as payments towards the capital amount.
- if he has paid more than the capital, refund any overpayments to him with 8% simple interest\* from the date they were paid to the date of settlement.
- remove any adverse information about the loan from Mr S' credit file.

\*HM Revenue & Customs requires Madison to deduct tax from this interest. It should give him a certificate showing how much tax it's deducted if he asks for one.

### **My final decision**

My final decision is that I uphold Mr S' complaint and I direct that Madison CF UK Limited, trading as 118 118 Money, puts things right for Mr S as I have outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 9 December 2022.

Rachael Williams  
**Ombudsman**