

The complaint

Miss P complains about a loan Madison CF UK Limited (trading as 118 118 Money) provided to her. She says the loan was irresponsibly lent.

What happened

118 118 Money provided Miss P with a loan for £1000 in November 2021. The loan was repayable over 80 months by instalments of £32.77.

Miss P complained that the loan was lent irresponsibly.

Our investigator reviewed what Miss P and 118 118 Money had told us and said she didn't think the loan should've been approved. 118 118 Money disagreed and asked for an ombudsman to make a 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 explained how we handle complaints about unaffordable and irresponsible lending on our website. I've had regard to this approach to help me decide Miss P's complaint.

118 118 Money needed to make sure it didn't lend irresponsibly. In practice, what this means is that 118 118 Money needed to carry out reasonable and proportionate checks to make sure that Miss P could sustainably repay the loan.

Our website sets out what we think about when deciding whether checks were proportionate. Generally, we think it's reasonable for checks to be less thorough in the early stages of a lending relationship. But we might think that a lender needed to do more if, for example, a borrower's income was low or the amount lent was high.

118 118 Money has argued that the monthly loan repayments were low, and that Miss P had sufficient disposable income each month.

I've looked at the information gathered by 118 118 Money. The credit check shows clear signs that Miss P was already significantly indebted and experiencing some financial stress. 118 118 Money could see that Miss P was already committed to 6 credit card accounts, 3 unsecured loans and 3 mail order accounts before she applied for the loan. And 118 118 Money could see that the balances on some of these accounts had been increasing in the months leading up to the loan, and that Miss P had been making minimum repayments.

I think the information 118 118 Money gathered from these checks should've given it cause for concern that the lending might not be affordable for Miss P. Because of this, I think 118 118 Money should've taken steps to find out more about Miss P's financial circumstances before determining that the loan was affordable.

I think further checks should've been carried out by 118 118 Money to find out more about

Miss P's expenditure. If it had done this, I'm persuaded it would've seen that Miss P was already in a difficult financial position.

Based on what I've seen, I don't think 118 118 Money carried out reasonable and proportionate checks. Miss P has ended up paying interest, fees and charges on a loan which shouldn't have been provided.

Putting things right

To put things right, 118 118 Money must:

- (A) Remove all interest, fees and charges applied to the loan from the outset. The payments Miss P has made should be deducted from the new starting balance (£1000). If Miss P has already repaid more than £1000, then 118 118 Money should treat any extra as an overpayment. Any overpayment should be refunded to Miss P together with 8% simple interest from the date of payment to the date of settlement. *
- (B) If there is still an outstanding balance, then the amounts calculate at (A) should be used to repay any balance on the loan. Any surplus should be repaid to Miss P. If, however, there is still an outstanding balance, 118 118 Money must try to agree an affordable repayment plan with Miss P.
- (C) Any adverse information recorded on Miss P's credit file in relation to this loan should be removed.

*If HMRC require 118 118 Money to deduct tax from the interest, it should give Miss P a certificate showing how much tax has been deducted if Miss P asks for one

My final decision

My final decision is that I uphold the complaint. Madison CF UK Limited must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P to accept or reject my decision before 5 February 2023.

Emma Davy
Ombudsman