

The complaint

Mr G complains that Madison CF UK Limited trading as 118 118 Money (“118 118”) was irresponsible to lend to him on two occasions.

Mr G has brought his complaint to us via a complaints management company but, for simplicity, I’ll refer to him throughout.

What happened

118 118 agreed two loans for Mr G in 2021. The first was for £1,000 agreed in June, the second was for £5,000 agreed in December. The first loan was to be repaid over a year with monthly repayments of £105. Mr G repaid this in full the following month, paying less than £100 in interest. The second loan is still running. The repayments are £166 a month over five years, and Mr G has met all his payments on time to October 2022.

Mr G said that he was dependent on credit at the time each loan was taken out and 118 118 should have seen this through its checks and not agreed to lend to him.

118 118 didn’t uphold Mr G’s complaint. It said that Mr G was asked to provide his income and expenditure details on his applications, which it sense-checked with reasonable averages. 118 118 said it also checked Mr G’s credit file to understand his expenditure towards his existing credit and that it was satisfied it had acted correctly in agreeing these loans for Mr G.

Mr G referred his complaint to us. Our investigator didn’t recommend that the complaint be upheld because they found that Mr G had enough disposable income to meet his repayments each time and didn’t have any adverse information on his credit file.

Mr G didn’t agree with this recommendation and asked for his complaint to come to an ombudsman for a review and it came to me. I issued a provisional decision on 23 November explaining why I thought Mr G’s complaint should succeed and sharing the information I’d relied on. I allowed some time for either party to comment on what I’d said or provide any new information they wished me to consider. I’ve had no response from either party.

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.

Having reconsidered everything and having no new information to consider, I see no reason to depart from my provisional conclusions. I remain of the view that Mr G’s complaint should be upheld. I’ll set out my reasons again in this final decision on the matter.

As I’d said in my provisional decision, I’ve had regard to the regulator’s rules and guidance on responsible lending (set out in its consumer credit handbook – CONC) which lenders, such as 118 118, need to abide by. 118 118 will be aware of these, and our approach to this

type of lending is set out on our website, so I won't refer to the regulations in detail here but will summarise and refer to them where appropriate.

Before entering into a credit agreement, 118 118 needed to check that Mr G could afford to meet his repayments out of his usual means for the term of the loan. This means he should be able to make his repayments without having to borrow further, while meeting existing commitments and without experiencing adverse consequences. The checks 118 118 carried out needed to be proportionate to the nature of the credit (the amount borrowed or the term, for example) and to Mr G's particular circumstances.

The overarching requirement was that 118 118 needed to pay due regard to Mr G's interests and treat him fairly. CONC 2.2.2G(1) gave an example of contravening this as 'targeting customers with regulated credit agreements which are unsuitable for them by virtue of their indebtedness, poor credit history, age, health, disability or any other reason.'

With this in mind, my main considerations are did 118 118 complete reasonable and proportionate checks when assessing Mr G's application to satisfy itself that he would be able to make his repayments without experiencing adverse consequences? If not, what would reasonable and proportionate checks have shown and, ultimately, did 118 118 make fair lending decisions?

118 118 carried out an income and expenditure assessment when Mr G applied for his first loan - it recorded his monthly income as £3,694 and his total expenses as £2,981. It also recorded that £1,831 of these expenses went towards repaying existing debt. 118 118 provided the credit file information it relied on and I've reviewed this. It shows that Mr G had 17 active accounts and over £26,500 of existing debt. He'd taken almost £2,900 in cash advances over the previous year.

The income and expenditure assessment for Mr G's second loan taken out in December 2021 records that his monthly income was £4,123 and his expenses were £2,396, with £1,113 spent on repaying existing debt. The credit file information provided by 118 118 shows that Mr G had debts of almost £27,500 and had taken out £200 of cash advances in the previous 12 months. I note £200 was advanced from Mr G's 118 118 credit card in November.

As 118 118 will know, it needed to have regard to information which might indicate that a customer is in, has recently experienced, or is likely to experience, financial difficulty. While Mr G appeared to have sufficient disposable income to repay his loans, I think 118 118 should have seen from the information it had that it was highly likely Mr G was reliant on credit and so wouldn't be able to meet his repayments for either loan without borrowing further or experiencing adverse impacts on his finances.

Furthermore, I don't think a more in depth check of Mr G's circumstances would have provided any reassurance to 118 118 that Mr G would be able to meet his payments out of his usual means. Mr G provided bank statements for a current account which shows payments to more than a dozen lenders including short term lenders around the time of his first 118 118 loan. The statements show significant amounts of deposits and withdrawals from the account, for example more than £55,000 was deposited in the three months prior to the first loan with over £54,000 being withdrawn.

I don't know enough about Mr G's circumstances to understand why he was borrowing and spending to this extent but it clearly well exceeded his usual means. It doesn't seem to me that Mr G's pattern of borrowing had changed before taking out his second loan.

In summary, I don't think 118 118 treated Mr G fairly or with due regard to his interests when

it agreed to lend to him on the basis of the information it had due to his high levels of indebtedness. I don't think further information about his circumstances would have provided any reassurance that these loans would be suitable for Mr G. I've concluded that 118 118 was irresponsible to have agreed to lend to him on either occasion.

Putting things right

I've concluded that 118118 was irresponsible to have agreed to lend to Mr G on either occasion. So he shouldn't have to pay any interest, fees or charges associated with the loans. 118 118 should:

- refund all interest, fees and charges that Mr G paid on the loan agreed in June 2021; and
- cap the amount Mr G has to repay on the second loan agreed in December 2021 to the capital he borrowed, in other words £5,000; and
 - If Mr G has paid more than this then 118 118 needs to refund these overpayments to him along with 8% simple interest per annum* from the date of payment to the date of settlement of this complaint. In this case 118 118 needs to remove any adverse information about this loan from Mr G's credit file; or
 - If Mr G has not yet repaid the capital, then 118 118 needs to treat Mr G fairly and with forbearance and due consideration regarding his outstanding capital balance. This may mean coming to an affordable repayment plan with him. Once the loan capital has been repaid, then 118 118 should remove any adverse information about this loan from Mr G's credit file.

* HM Revenue & Customs requires 118118 to take off tax from this interest. 118118 must give Mr G a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons given above, I am upholding Mr G's complaint about Madison CF UK Limited trading as 118 118 Money and it now needs to take the above steps to put things right for him.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 18 January 2023.

Michelle Boundy
Ombudsman