

## **The complaint**

Mr B says Madison CF UK Limited, trading as 118 118 Money, irresponsibly lent to him.

## **What happened**

Mr B took out two instalment loans from 118 118 Money.

Loan 1 was for £1,000 over 12 months and was active from 4 February 2018 to 18 January 2019. The monthly repayments were £117.26 and the total repayable was £1,407.12.

Loan 2 was for £5,000 over 60 months and was active from 14 April 2021 to 11 November 2022. The monthly repayments were £163.46 and the total repayable was £9,807.60.

Mr B says he was struggling financially when he applied and was surprised when he was accepted, particularly for loan 2 as he had a loan default and a CCJ registered against him in the previous 12 months.

Our adjudicator upheld Mr B's complaint about loan 1. He said 118 118 Money's checks showed Mr B was already spending a large proportion of his income on credit and his total expenses exceeded his income. He found 118 118 Money was not wrong, however, to give Mr B loan 2 based on the results of its proportionate checks.

118 118 Money accepted this assessment. Mr B asked for loan 2 to be reviewed by an ombudsman so the case was passed to me. He said loan 2 was taken shortly after 118 118 Money had given him a credit card that he was using for cash advances. He had defaulted on car finance in 2020, his credit history may have looked okay as a charity cleared some of his debt in January 2021 but his rating had previously always been poor.

## **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 of the relevant rules, guidance and good industry practice - on our website. Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Mr B's complaint. These two questions are:

1. Did 118 118 Money complete reasonable and proportionate checks to satisfy itself that Mr B would be able to repay the loans without experiencing significant adverse consequences?

- If so, did it make fair lending decisions?
- If not, would those checks have shown that Mr B would've been able to do so?

2. Did 118 118 Money act unfairly or unreasonably in some other way?

The rules and regulations in place required 118 118 Money to carry out a reasonable and proportionate assessment of Mr B'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 118 118 Money had to think about whether repaying the loan would cause significant adverse consequences *for Mr B*. In practice this meant that the business had to ensure that making the payments to the loans wouldn't cause Mr B undue difficulty or significant adverse consequences.

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 B. Checks also had to be "proportionate" to the specific circumstances of the loan applications. 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.

In light of this, 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 of the arguments, evidence and information provided in this context and what this all means for Mr B's complaint. As both parties now agree that loan 1 should not have been given, I will focus here on loan 2.

118 118 Money has provided evidence to show that before lending it asked for some information from Mr B. It asked for his monthly income, his housing costs and his general living costs. It says it sense checked these against reasonable averages, it hasn't confirmed if it then made any adjustments. It carried out a full credit check to understand Mr B's credit history and his existing credit commitments. Based on these checks 118 118 Money thought it was fair to lend.

I think these checks were proportionate given the term of the loan, the stage in the lending relationship and the amount of the monthly repayment relative to Mr B's declared income. Mr B's credit check showed a relatively low level of existing debt – £777. This was significantly lower than when he applied for loan 1 when it was £14,395. I note Mr B has explained this was because he received financial assistance from a charity, but that doesn't change the fact 118 118 Money would have seen a much-reduced level of indebtedness.

Mr B had six active accounts and no significant arrears. Mr B says he had recently defaulted on a loan and had a CCJ, but this was not listed on the lender's credit check. This may be as not all lenders report to all the credit reference agencies, and there can be timing discrepancies. But I can only fairly expect 118 118 Money to base its decision on the data its

credit search returned. Mr B also raised that he was withdrawing a lot of cash on credit, but at the time of this loan application I don't think it was at such a level (£555 in 12 months) that the lender ought to have been concerned.

I am sorry to hear it was hard for Mr B to make his repayments but based on the results of the lender's checks I don't think it was irresponsible for 118 118 Money to lend to him. And I think the checks were sufficient in the circumstances of the application.

It follows I don't think 118 118 Money was wrong to give this loan to Mr B.

I've also thought about whether 118 118 Money acted unfairly in some other way and I haven't seen any evidence that it did.

### **Putting things right**

#### **Loan 1**

It's reasonable for Mr B to have repaid the capital amount that he borrowed as he had the benefit of that money. But he has paid interest and charges on a loan that shouldn't have been given to him. So he has lost out and 118 118 Money needs to put things right.

I can see Mr B asked the adjudicator if the refund of interest and charges on loan 1 could be used to offset the outstanding balance on his credit card, rather than loan 2. We asked this question of 118 118 Money but it did not reply. If this is an option, I would ask the lender to contact Mr B to agree which of his debts he wants the refund to be used to reduce. If it cannot be done, I would ask 118 118 Money explains why not to Mr B.

So 118 118 Money must:

- Remove all interest, fees and charges on loan 1 and treat all the payments Mr B made as payments towards the capital.
- As reworking Mr B's loan account will result in him having effectively made payments above the original capital borrowed, then 118 118 Money should use this amount to reduce the balance on either Mr B's credit card account or the account of loan 2 - 8% simple interest should be applied to the overpayments, from the date the overpayments would have arisen, to the date of settlement\*.
- Remove any adverse information recorded on Mr B's credit file in relation to the loan.

\*HM Revenue & Customs requires 118 118 Money to deduct tax from this interest. 118 118 Money should give Mr B a certificate showing how much tax it's deducted if he asks for one.

### **My final decision**

I am upholding Mr B's complaint in part. Madison CF UK Limited, trading as 118 118 Money, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 20 March 2023.

Rebecca Connelley  
**Ombudsman**