

The complaint

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

What happened

Using information Madison gave us here is a brief loan table.

Loan	Approved	Amount	Term (months)	Payments (month)	Paid
1	18 November 2017	£1,500	24	£143.17	4 November 2018
2	4 November 2018	£1,903.33	24	£189.74	1 May 2019

Madison responded to Mr G's complaint with its final response letter (FRL) dated 21 December 2022. It did not consider that it had acted irresponsibly. But it went on to offer a good will payment in relation to distress and inconvenience for the second loan and to remove any adverse information about loan 2 from Mr G's credit file. That was to be in full and final settlement of the complaint. Mr G did not accept this offer.

After Mr G's representative had referred the complaint to the Financial Ombudsman Service one of our adjudicators looked at it. She considered that Madison had done the correct checks and there was no evidence of the loans being unaffordable. Mr G had used the loans from Madison to consolidate other loans and had reduced his monthly outgoings. So, she did not think that the complaint should be upheld.

Mr G's representative wrote to say that it disagreed and so the complaint was passed to me to decide.

On 27 February 2023 I issued a provisional decision giving reasons why I planned to uphold the complaint. Both parties were given time to respond. Neither has responded.

So, I set out below – in the same terms as those set out in my provisional decision, my final determination on this complaint.

And I've done that because without any further comments or evidence to review then my original and provisional findings stand as I have no reason to depart from them.

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.

Considering 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 G

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

If I determine that Madison did not act fairly and reasonably in its dealings with Mr G 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 G'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 loans would be sustainable and/or cause significant adverse consequences for Mr G. In practice this meant that Madison had to ensure that making the payments to the loans wouldn't cause Mr G 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 G. 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 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 G's complaint.

Loan 1

Mr G had informed Madison he was single and living at home with his parents when he applied for both loans. The first loan he applied for was £1,500. He declared that he was working full time and had very little outgoings (£30 for food) and earned £1,400 a month. Madison carried out a credit check. I have seen a copy of that.

The headline information indicated that Mr G did not have much outstanding debt, around £1,780 but he had had 40 accounts, of which nine were active and he had opened ten accounts in the six months leading up to that credit search done November 2017. The results registered Mr G had experienced two defaults in the previous 36 months.

The results included a section for MODA which is a type of search providing the very latest information about the customer. For Mr G it showed he'd taken a loan of £200 just a few weeks earlier on 14 October 2017 and he was paying £60 a month for it. And another for

£150 taken a few days before on 10 November 2017 – the next payment due was £45. He also had three other credit accounts open, which had commenced in June, September, and October 2017 with the scheduled next payments due of £66, £125, and £63.

Mr G had three other loans due to cost him £102, £95 and £191 each month. These all added up to be around £747 each month. This represented about around half his income. The results did reveal defaults from June 2015 for £57 and December 2015 for £162 both of which were debt collection agencies. And whilst I appreciate that these were over two years before Mr G approached Madison, the fact that they were with debt collection agencies was additional evidence to suggest Mr G had got into money troubles in the past.

While it may not have been wise for Mr G to continually take and pay off loan after loan, I've thought carefully about whether this would necessarily have led to an alert to Madison. Or to have prompted it to have done something further before lending. Mr G's accounts did not overtly show recent poor management but it did show a lot of loans having to be managed by Mr G.

I've decided that Madison ought to have done more. And even with the information from Mr G that he was going to use the Madison money to consolidate the debts, usually I'd expect a lender to pay off some or all those other debts directly and pay the balance to the customer. Here, it seems that did not happen. The full £1,500 credit Mr G's bank account on 20 November 2017.

And I consider that the combination of the extremely and unrealistically small expenditure declaration of £30, plus the credit file details Madison obtained enough to prompt Madison to at least get further details about his salary, genuine household and monthly expenses and why he was taking so many loans almost on a regular, rolling basis.

One way to obtain additional and more detailed information about Mr G's financial situation was to have reviewed some bank account statements. And with the information Madison already had, with the application for £1,500 and the proposed term of the loan being 24 months, then I do not think that would have been disproportionate even though it was Mr G's first loan with Madison.

So, I have reviewed the bank account statement for Mr G that I have for the period leading up to the approval of loan 1. I can see that he paid to a family member about £450 a month which I think was very likely to have been his 'board and lodging' payment to his parents. In any event, I can see this was a regular payment to that same family member in the months leading up to loan 1. And I have noted that his salary was lower than the £1,400 he had declared.

Plus, I can see the extensive number of loans and repayments Mr G had to make which was similar information from Mr G's credit file, even though I appreciate that all credit file information is weeks behind the true picture. And it revealed a pattern of regular high cost short term and instalment lending followed by large amounts of repayments towards them each month.

Just using the information revealed on the credit file Madison had before loan 1 (which I appreciate was a few weeks behind the true picture) then the £747 Mr G appeared to have owed other lenders at that stage, plus the £450 he was paying to the family member regularly plus the £30 he declared then I do not think he could afford the repayments for loan 1. He would have been left with very little and I do not consider that a responsible lending decision.

And although the indication was that he was going to consolidate loans then I say two points on that:

- I think that Madison ought to have checked Mr G did do, or had arrangements to repay, the other loans rather than simply pay out the £1,500 to him and
- the financial behaviour pattern revealed suggests that Mr G was simply borrowing to repay other borrowing on a rolling basis which does not lead me to think Mr G was consolidating his debts and therefore does not persuade me that he was likely to approach his existing debts in that way going forward.

I uphold the complaint about loan 1.

Loan 2

Mr G repaid the loan repayments for loan 1 without any concerns and a year later applied for a further loan with Madison. It was for £850 and he gave much the same information he'd given to Madison before. And it seems he took a loan for £1,903.33 of which £1,053.33 was used to pay off loan 1 leaving Mr G with £850 cash as new lending. Mr G was credited with about £664 as an interest rebate linked to loan 1. This agreement for loan 2 meant he was going to be paying more each month and for a further 24 months.

Madison carried out another credit search and his total indebtedness had increased to £3,640. He had 61 accounts of which 12 were active and seven had been opened in the previous six months. Which meant that Mr G had opened at least seven accounts since taking loan 1 with Madison. And although his total debt figure was not high it had doubled. No further defaults had been incurred, but Mr W was constantly requiring new credit to repay older debts and that was a classic sign of unsustainable borrowing.

Overall, I think that Madison ought to have at least checked that Mr G had done what he said he was going to do with the funds from loan 1 – consolidate existing debts. And I say that because Mr G had said the same thing on the loan 2 application (that he needed it to consolidate debts) and his credit file revealed a 100% increase in his debt since it had approved loan 1 to Mr G.

And if Madison had done that it would have seen that he was regularly paying money to that same family member which I think was board and lodging and that was now £500 a month. Plus, Mr G had continued his behaviour pattern of constantly taking out loans and repaying them almost on a rolling basis. Therefore, his plan to use the loan 1 funds to consolidate his lending had not been adhered to and Madison knew this as the credit file showed he'd taken seven new loans since he had taken loan 1. And he was returning for more money a year into the two year loan 1 term.

The sums Mr G was repaying to other lenders in or around October 2018 (just before loan 2 was approved) were high and overall, I do not consider he could afford loan 2.

I uphold Mr G's complaint about loan 2.

In light of my provisional and now my final findings, I do not need to address the fact Madison had already made a goodwill offer in relation to loan 2.

Putting things right

I do not think Madison ought to have lent to Mr G and so I direct that Madison to do as follows:

- refund all interest and charges Mr G paid on loans 1 and 2;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement*;
- remove any negative information about the loans from Mr G's credit file.

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

My final decision

I uphold Mr G's complaint and I direct that Madison CF UK Limited trading as 118 118 Money, does as I have outlined in the putting things right part of my decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 10 April 2023.

Rachael Williams
Ombudsman