

The complaint

Mr T, through his representative, complains that Madison CF UK Limited, trading as 118 118 Money, lent to him irresponsibly in 2018 and 2019.

What happened

Using information from Madison's records, here is a loan table.

Loan	Approved	Amount	Monthly repayments and term	Repaid	Refinanced?
1	22 January 2018	£1,700	24 x £119.29	3 August 2018	Yes into loan 2
2	3 August 2018	£2,194.63 of which £1,344.63 from loan 1	24 x £159.41	3 July 2018	Yes into loan 3
3	3 July 2019	£2,772.51 of which £1,572.51 to settle loan 2	24 x £201.46	30 April 2021	

Mr T told Madison that he earned £1,300 a month, he lived with his parents and paid them £80 a month. His other expenses were unsecured credit of £262 a month (credit card and other loan payments) and he also spent £325 a month on food, insurance, and utility bills. So, his total outgoings were declared as £667 each month.

Madison carried out credit searches on each of the loan application dates and I will come back to those in the main body of the decision.

One of our adjudicators looked at the complaint and thought that Madison ought not to have lent to Mr T at loan 3. Madison agreed. Mr T's representative was content to accept that loan 3 resolution but was not content in relation to loans 1 and 2.

The partially unresolved complaint about loans 1 and 2 has been 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.

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

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

As Mr T's representative has told us and informed Madison that it was content with the loan 3 uphold then this decision will review loans 1 and 2 as they are the unresolved loans about which Mr T continues his complaint.

Loan 1

The declared income and expenditure indicated that Mr T had enough disposable income to afford the repayments of just over £119 a month.

Madison carried out a credit search and I have received a copy of that report. The headline figures show me that Mr T had around £5,400 of total debt of which £5,005 related to revolving credit (such as credit cards) or budget accounts.

Mr T had 12 accounts of which 5 were active. He'd opened one new account in the six months leading up to applying for loan 1. He'd had some late repayments in the previous 36 months and was taking cash advances using his credit accounts. And Mr T had only one search registered against him in the previous 12 months.

Mr T's representative has said that his overdraft was significant element relating and I have seen from the credit search that his overdraft was £390 on a £600 limit. It seemed to be an account under control and I'm not persuaded that simply having and using an overdraft

facility is a feature of Mr T's financial situation that ought to have been a significant factor to concern Madison.

Overall, I consider that Mr T's financial situation as relatively good. For a loan of this kind as a new customer and for this term, then I'd have expected Madison to have carried out a credit search which it has. I would not have expected it to have gone further as there was nothing in that research Madison did which likely would have prompted it to carry out further or more in-depth enquiries about Mr T's financial situation.

I do not uphold Mr T's complaint about loan 1.

Loan 2

Madison has said that for the second loan it asked Mr T if any of his income and expenditure information had altered. Mr T had not indicated it had. Madison told us:

'For additional borrowing applications (where there is an internal settlement) the customer will be presented with the info [sic] they supplied on the previous application and will be asked to update/edit anything that may have changed. In this instance, the data remained unchanged.'

Madison was aware that Mr T wanted to refinance the first loan into the second. The repayment history on loan 1 up to that point had been satisfactory and that historic feature would have formed part of the creditworthiness assessment carried out by Madison when Mr T approached it for loan 2.

When loan 1 was refinanced into loan 2 then Mr T's loan account shows that he received an interest rebate of £683.20.

Madison carried out a credit search and I have reviewed those results.

In June 2018 Mr T had applied for and obtained a hire purchase agreement (HP) which had an outstanding balance of £9,031 at the time Mr T applied for loan 2 with Madison. There had been no issues with the repayments. He was scheduled to repay £150 a month.

Mr H had obtained an earlier HP agreement in February 2018 which had an outstanding balance of just under £7,500 and his repayments were £133 a month. There were no recorded issues relating to payments on that account.

So, the declared expenditure of spent £325 a month on food, insurance, and utility bills, plus £80 a month on his rent to his parents plus the expenditure on the two HP loans all added up to around £688. His credit card balances were around £5,600 and so the minimum repayments on that would have been around £168 a month. His total likely costs for HP and credit card and loan repayments were around £610 a month including the Madison loan 2 monthly payments. I consider that Madison would have considered that the loan 2 repayments were affordable.

Mr T's overdraft was much the same with a balance of £460 on a £600 limit. Mr T's credit card situation was much the same as when he applied for loan 1.

So, his overall credit debt balance had increased but two of those related to HP agreements for which there were no issues with repayments. The use of cash advances through credit accounts had reduced.

I have reviewed Mr T's representative concerns since the adjudicator issued his view on the three loans last year.

Most of the points it raised presupposed that Madison would have obtained and reviewed copies of Mr T's bank account statements. But as I have outlined above, the information Madison had already obtained in relation to Mr T's finances was not likely to have promoted it to consider that further investigation was needed. A couple of examples are that Mr T received money from his mother and had to pay for bank charges. Mr T's representative has mentioned that Mr T spent money on betting and gaming websites, but this is not information

Madison would have known about. I would not have expected Madison to have done more and so unless Mr T informed them about this additional expenditure then I'd not expect Madison to have known of it.

I do not uphold Mr T's complaint about loan 2.

Loan 3 has been resolved and for completeness I set out below what our adjudicator said and which Madison agreed to carry out. So, I anticipate that Madison has already actioned this part of the complaint.

Putting things right

Madison shouldn't have given Mr T loan 3. My understanding is that this part for loan 3 was accepted by Mr T's representative on his behalf on 22 or 23 November 2022 and so reference here to calculation of the 8% would mean up to the date of settlement at that time and not today's date. If it has not already done so, Madison should do as follows:

- A) add together the total of the repayments made by Mr T towards interest, fees and charges on loan 3, including payments made to a third party where applicable, but not including anything already refunded.
- B) calculate 8% simple interest* on the individual payments made by Mr T which were considered as part of "A", calculated from the date Mr T originally made the payments, to the date the loan 3 uphold was accepted by Mr T
- C) pay Mr T the total of "A" plus "B", unless already paid
- D) remove any adverse information you have recorded on Mr T's credit file in relation to loan 3, unless already carried out..

*HM Revenue & Customs requires Madison to deduct tax from this interest. It should give Mr T a certificate showing how much tax has been deducted, if he asks for one.

My final decision

My final decision is that I uphold Mr T's complaint in part.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 19 May 2023.

Rachael Williams
Ombudsman