

The complaint

Miss D complains Madison CF UK Limited trading as 118 118 Money (“118 118 Money”) irresponsibly lent to her.

Miss D did have a previous loan with 118 118 Money, but she is only complaining about the most recent loan which is set out below.

What happened

Miss D was approved for a £1,000 loan by 118 118 Money in May 2017. The term of the loan was 24 months, with repayments of effectively £77. She says this loan was irresponsibly lent by 118 118 Money. Miss D says had 118 118 Money completed reasonable and proportionate checks it would’ve realised the loan was unaffordable to her.

Our investigator recommended the complaint be upheld. He argued that 118 118 Money had not completed reasonable and proportionate checks. Miss D had provided further information in the form of bank statements. Our investigator said had 118 118 Money completed further checks it would’ve seen Miss D could not afford the repayments.

118 118 Money did not respond to the assessment, so the matter has been referred to a final 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 set out our approach to complaints about irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website. I’ve used this approach to help me decide Miss D’s complaint.

118 118 Money and Miss D are aware of our service’s approach to unaffordable and irresponsible lending complaints, so for the sake of conciseness I won’t set the detail here.

118 118 Money needed to take reasonable steps to ensure the lending it provided was not irresponsibly lent to Miss D. The relevant rules, regulations and guidance at the time 118 118 Money lent effectively required it to carry out reasonable and proportionate checks. These checks needed to assess Miss D’s ability to afford the loan and repay it sustainably over its term, without causing her financial difficulties.

There isn’t a set list of checks a lender needs to carry out, but they should’ve been effectively proportionate, taking into account things like the type, amount, duration and total cost of the credit, as well as the borrower’s individual circumstances.

In addition to this, it wasn’t sufficient for 118 118 Money to just complete proportionate checks – it also had to consider the information it obtained from these checks to make a fair

lending decision. This includes not lending to someone in financial hardship; and ensuring repayments can be made sustainably without having to borrow further.

This loan was for £1,000 and was set to be repaid over a 24 month period. 118 118 Money says it completed proportionate checks before lending to Miss D. This included searching Miss D's credit file, and completing an income and expenditure assessment on her. I've considered 118 118 Money's arguments, but in this instance I disagree with it.

The affordability assessment demonstrated that Miss D was employed full time with her income declared at around £1,340 per month. Her outgoings at that time including rent amount to around £940. This included contributions to her existing credit commitments.

The credit file search demonstrated that Miss D had a number of existing credit commitments. Miss D had total existing credit of over £15,000 which included unsecured loans, credit cards, mail order accounts and overdrafts. The credit report also suggested that she had some cash advances historically and in the past 12 months. There were also some historic defaults on her file. Further, whilst the majority of Miss D's credit had been maintained well, there had been signs in the last 12 months of some issues managing her credit. This included arrears on an existing personal loan, and mail order account, and a continuous increasing of her credit limits across all of her credit cards including exceeding her limits (albeit marginally a couple months prior to this loan). She had also recently exceeded her overdraft balance, again only marginally.

Whilst the value of the loan was small – only £1,000, as stated above there is a requirement for 118 118 Money to carefully consider the information it was provided with. I'm satisfied having done so that there were sufficient discrepancies between Miss D's application and that of her credit file to suggest 118 118 Money needed to complete further checks to better verify the information it was relying on. In particular I'm satisfied that it should've done more to verify Miss D's outgoings. It follows that I'm not persuaded 118 118 Money completed reasonable and proportionate checks in this instance.

As reasonable and proportionate checks weren't completed in this instance, I've considered what further checks would've likely shown had 118 118 Money completed them. In this instance Miss D has provided our service with copies of her bank statements in the months leading up to the decision to lend this loan. In the absence of other information I've placed considerable weight on the information in these statements when coming to my conclusion.

The statements demonstrate that Miss D was not in a sustainable financial position. As was suggested by her credit file, Miss D is showing as being overdrawn and reliant on her overdraft. The statements show that she is frequently up to her overdraft limit, and any income does not place her in a position where she is able to reduce this, or leave this facility.

The statements suggest Miss D's outgoings are higher than those declared in the application, with her total outgoings for rent, bills and existing debts amounting to over her declared monthly income. Whilst Miss D was doing some overtime during this period, even taking that amount into account, she was exceeding her income with her outgoings on a monthly basis.

So based on this information I'm satisfied that Miss D was not in a position that she could sustainably afford to repay this loan. And on that basis, 118 118 Money made an unfair decision to lend to her.

Putting things right

Miss D has lost out by the actions of 118 118 Money, as she has had to pay additional

interest and charges.

In order to put things right I require Madison CF UK Limited trading as 118 118 Money:

- To add up the total amount of money Miss D received as a result of having been given this loan. The repayments Miss D made should be deducted from this amount.
 - a) If this results in Miss D having paid more than they received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement). †
 - b) If any capital balance remains outstanding, then 118 118 Money should attempt to arrange an affordable and suitable payment plan with Miss D.
- 118 118 Money should remove any adverse information recorded on Miss D's credit file in relation to this loan but that only needs to be done once the loan has been repaid.

I understand that 118 118 Money may have sold the outstanding balance on Miss D's account to a third-party debt purchaser. If it has, it will need to either buy the account back from the third-party concerned and make the adjustments set out above, pay an amount to the third party in order for it to make the necessary reductions, or pay Miss D an amount – such that she can settle a portion of this debt with the third-party that corresponds with her loss - to ensure that it fully complies with this direction

† HM Revenue & Customs requires Madison CF UK Limited trading as 118 118 Money to take off tax from this interest. Madison CF UK Limited trading as 118 118 Money must give Miss D a certificate showing how much tax it's taken off if they ask for one.

My final decision

My final decision is that I uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 4 June 2023.

Tom Whittington
Ombudsman