

The complaint

Mr R, through a representative, says Madison CF UK Limited, trading as 118 118 Money, irresponsibly lent to him.

What happened

This complaint is about two 18-month instalment loans that 118 118 Money provided to Mr R. The first was in February 2018 for £2,000. The monthly repayments were £336.34 and the total repayable was £4,074.12. Mr R settled this loan early in October 2018.

The second was in April 2019 for £1,200. The monthly repayments were £130.45 and the total repayable was £2,348.10. Mr R settled this loan early in May 2019.

Mr R says the loans were not affordable for him and 118 118 Money did not properly assess this, or how they impacted his over-indebtedness.

Our adjudicator upheld Mr R's complaint in part. She said 118 118 Money's checks were Proportionate. For loan 1 they did not show anything that ought to have led it to make a different lending decision. However, she felt by loan 2 the checks showed it was likely Mr R would not be able to repay the loan sustainably.

Mr R accepted this assessment, 118 118 Money did not respond so the case was passed to me to make 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 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 R's complaint. These two questions are:

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

- If so, did it make a fair lending decision?
- If not, would those checks have shown that Mr R 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 R'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 loans would cause significant adverse consequences for Mr R. In practice this meant that the business had to ensure that making the repayments wouldn't cause Mr R 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 R.

Checks also had to be proportionate to the specific circumstances of each loan application. 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 R's complaint.

118 118 Money has provided evidence to show that before lending it asked for some information from Mr R. It asked about his employment and residential status. It asked for his monthly income, his housing costs, his general living costs and his credit costs. It says it sense checked these against reasonable averages, but it hasn't confirmed if it then made any adjustments. It carried out a full credit check to understand Mr R's credit history and his existing credit commitments. It asked about the purpose of the first loan which was debt consolidation. Based on these checks 118 118 Money thought it was fair to give both loans.

I think these checks were proportionate given the term of the loans, the value and the amount of the monthly repayments relative to Mr R's declared income. But I don't agree both lending decisions were fair. I'll explain why.

Loan 1

It seems the lender's checks showed Mr R would have around £800 monthly disposable income after taking on this loan. His credit check showed a relatively low level of existing debt (£4,336) across five accounts. He was up-to-date with all his repayments and he hadn't applied for any other credit in the last six months. And he had told 118 118 Money this loan was to repay existing debt. So I don't think there was anything in the checks that should have made 118 118 Money think there was a risk this loan would not be sustainably affordable for Mr R.

It follows I don't think 118 118 Money was wrong to give loan 1 to Mr R.

Loan 2

By the time Mr R returned to 118 118 Money to borrow again his indebtedness had increased significantly to £23,615 and his credit cards were 96% utilised. He had taken out three new credit accounts in the previous six months and was increasingly using credit cards to withdraw cash. By giving this loan 118 118 Money increased the proportion of income that Mr R would need to spend each month on his debt to around 60%. I think this ought to have concerned the lender and it ought to have realised there was a high risk Mr R would end up either needing to borrow to repay, or suffering some other financial harm.

It follows I think 118 118 Money was wrong to give loan 2 to Mr R.

I have found no evidence 118 118 Money acted unfairly or unreasonably in some other way.

Putting things right for loan 2

It's reasonable for Mr R 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.

It should:

- Remove all interest, fees and charges on the loan and treat all the payments Mr R made as payments towards the capital.
- As reworking Mr R's loan account will result in him having effectively made payments above the original capital borrowed, then 118 118 Money should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- Remove any adverse information recorded on Mr R'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 R a certificate showing how much tax it's deducted if he asks for one.

My final decision

I am upholding Mr R'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 R to accept or reject my decision before 3 July 2023.

Rebecca Connelley
Ombudsman