

## **The complaint**

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

## **What happened**

Mr T took out a loan for £3,400 over 36 months on 10 May 2021. The monthly repayments were £150.95 and the total repayable was £5,434.20. Mr T fell behind with his repayments and the account defaulted in April 2022.

Mr T says 118 118 Money's inflated interest rates and lack of credit checks contributed to his financial difficulties. It then defaulted and sold his account without notice and whilst he was on a payment plan. It did not respond to his requests for support in a timely way. This has all put undue strain on him and his family and impacted his mental health. He asks for substantial compensation; a review of 118 118's policies, email response times and overall support; and for the default on his credit file to be removed.

Our investigator upheld Mr T's complaint in part. He said 118 118 Money's checks were not proportionate and had it carried out better checks it ought to have realised the loan would not be affordable. But he was satisfied 118 118 Money had acted fairly when it defaulted the account as it was more than three months in arrears.

Mr T replied saying he was happy with this outcome. 118 118 Money did not respond so the complaint was passed to me for 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 T's complaint. These two questions are:

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

- If so, did it make a fair lending decision?

- If not, would those checks have shown that Mr T 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 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 118 118 Money had to think about whether repaying the loan would cause significant adverse consequences for Mr T. In practice this meant that the business 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 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 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 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 T's complaint.

118 118 Money has provided evidence to show that before lending it asked for some information from Mr T. It asked for his employment status and monthly income, his residential status and 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 T's credit history and his existing credit commitments. Based on these checks 118 118 Money thought it was fair to lend.

I don't think 118 118 Money's checks were proportionate given the initial results it saw from the information it gathered. I say this because its credit check showed Mr T had a high level of unsecured debt, with two of his cards overlimit, and so I think it should have carried out a fuller financial review before progressing. From what I can ascertain it understood his monthly income to be £2,655 and that his credit commitments were £1,186 each month. That was a high portion of his income and so was another reason 118 118 Money reviewed Mr T's financial situation in more detail.

In case such as these we look at bank statements from the months prior to the application. I am not saying 118 118 Money had to do this, but it is one way for me to recreate what better checks would most likely have shown the lender. The most important finding from doing this is that Mr T's actual income was significantly lower than he declared at on average £1,937 a month. This means adding this loan to his existing credit commitments would have meant he needed to spend over 65% of his income each month on credit. This is not sustainable and is a strong indicator of likely future financial difficulties. For this reason I think 118 118

Money was wrong to lend to Mr T.

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

Mr T says 118 118 Money did not offer timely support when he notified it of his financial difficulties, and it unfairly defaulted his account without notice. I do not agree with these recollections based on the available evidence. 118 118 Money has evidenced that it agreed to a repayment plan. When Mr T wanted to extend this, it explained a revised income and expenditure form was needed but Mr T was unable to do this at the time.

At times Mr T did need to wait for an email reply but that was for valid security reasons, and the lender had explained the phone would be a swifter way to discuss his position. Finally, I can see 118 118 Money sent Mr T the required notices prior to defaulting his account. And I am satisfied it defaulted it in line with the Information Commissioner's Office guidelines as it was clear by March 2022 that Mr T was unlikely to be able to repay the debt. The terms and conditions of his account allow for the debt to be sold.

Mr T also says the interest rate he was charged was inflated. I accept the APR was high, but Mr T had to actively engage in the application process, so I think it's likely that he was aware of what he was agreeing to pay. I haven't seen anything which makes me think that 118 118 Money treated Mr T unfairly or breached industry practice regarding interest charges. But the interest and charges will be refunded anyway as it has been agreed the loan shouldn't have been given.

Mr T also asked that 118 118 Money's policies be reviewed but that it not something this service has the powers to do – that would be the role of the regulator, the Financial Conduct Authority. Our remit is to look at the merits of an individual complaint - to decide if the lender has made an error and if so, to set out what it must do to put things right.

### **Putting things right**

It's reasonable for Mr T 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.

118 118 Money has sold the debt so it should first try to buy it back. If that is not possible it must work with the new owner to achieve the same outcome as the steps set out below.

It should:

- Remove all interest, fees and charges on the loan and treat all the payments Mr T made as payments towards the capital.
- If reworking Mr T's loan account results 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\*.
- If reworking Mr T's loan account results in there being an outstanding capital balance 118 118 Money must try to agree an affordable repayment plan with Mr T, treating him fairly and with forbearance if appropriate.
- Remove any adverse information recorded on Mr T's credit file in relation to the loan once any capital balance owing is repaid in full.

\*HM Revenue & Customs requires 118 118 Money to deduct tax from this interest. 118 118 Money should give Mr T a certificate showing how much tax it's deducted if he asks for one.

**My final decision**

I am upholding Mr T'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 T to accept or reject my decision before 1 June 2023.

Rebecca Connelley  
**Ombudsman**