

The complaint

Mrs S complains that Madison CF UK Limited, trading as 118 118 Money ("Madison") lent to her irresponsibly.

What happened

Mrs S took out a loan with Madison in August 2021. She borrowed £2,500 over 36 months, repaying £124.11 a month. The total cost of the loan including interest was £4,468.

Mrs S says she couldn't afford the credit. She says he had lots of debt elsewhere and that if Madison had done proper checks it had would have known the credit was unaffordable for her.

Madison says it did all the necessary checks before it lent to Mrs S and it didn't see anything which might make it think she couldn't afford the loan.

Our adjudicator considered that Mrs S's complaint should be upheld. He thought that Madison hadn't done necessary and proportionate checks, and if it had it wouldn't have lent to Mrs S. Mrs S agreed with this view.

Madison didn't respond to the view. Our adjudicator contacted Madison on numerous occasions to seek its views on our adjudicator's opinion, but Madison didn't engage.

As Madison did not say whether it agreed or not the complaint has been 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 and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when considered Mrs S's complaint.

Having done so, I have come to the same conclusion as our adjudicator. I will explain why I have reached this decision.

Madison needed to take reasonable steps to make sure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mrs S could afford to repay what she was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts, how much borrowing Mrs S had elsewhere and Mrs S's income and expenditure. There may even come a point where the lending history and pattern of lending itself clearly demonstrates that that the lending was unsustainable.

Madison said that it conducted checks to ensure that the credit would be affordable for Mrs S when she took out the loan. It provided this service with a copy of Mrs S's credit file which it used to make its decision on whether to lend to her. Madison said it identified that when Mrs S's payments to her existing creditors were paid, she would have had a disposable income of £525 a month. Madison said in its letter to Mrs S that she was asked to provide her income and expenditure when she applied for the loan, but I haven't seen any evidence of this or of what Mrs S declared. It also said it used 'reasonable average figures' to help it understand Mrs S's likely financial circumstances. Again, it hasn't supplied evidence of how it reached these figures.

I don't think this was sufficient to allow Madison to be satisfied Mrs S could afford the repayments on a sustainable basis.

Madison observed that Mrs S had active credit of around £20,000. She had opened five credit accounts in the preceding 12 months. There was evidence of arrears in the past year on both a utility account and a home credit loan. Mrs S was utilising a high percentage of her available existing credit.

I think this information ought to have prompted Madison to do further checks on Mrs S's income and essential expenditure. I accept that Madison says it did this when it asked Mrs S to provide detail about her income and expenditure, but it hasn't provided any evidence of this, so I don't know whether it took into account all her essential expenditure.

In the absence of evidence of these checks I think it is reasonable for me to now rely on Mrs S's bank statements to help me understand what Madison ought to have seen if it had done proportionate checks.

Having reviewed Mrs S's bank statements on her sole and joint accounts for the three month period leading up to her taking the loan I can see that Mrs S was experiencing financial difficulties. In the three month period 17 direct debit transactions were returned unpaid. These direct debits included repayments to existing creditors, debt management companies and utilities. The bank statements clearly show that Mrs S could not meet her essential expenditure. In the light of this, it seems very unlikely Mrs S could have been able to sustainably and affordably meet the repayments on her new loan.

So, on the information available to me, I don't think Madison did necessary and proportionate checks when it decided to lend to Mrs S. And if it had done them, it ought reasonably to have concluded that Mrs S wouldn't be able to affordably and sustainably meet the repayments each month. So, I think Mrs S lost out as a result of what Madison did wrong.

Putting things right

Madison should not have provided the loan to Mrs S. To settle this complaint Madison should do the following. Please note the amendment to the last point which serves to clarify how Mrs S's credit file should be amended.

- Add up the total amount of money Mrs S received as a result of having been given this loan.
- Subtract the repayments Mrs S has made from this amount.
- If this results in Mrs S having paid more than she received, any overpayments must be refunded along with 8% simple interest* calculated from the date the overpayments were made to the date of settlement.

- If any capital balance remains outstanding, Madison should arrange an affordable and suitable payment plan with Mrs S. If no such arrangement can be agreed, Mrs S can return to this service to make a further complaint.
- Remove any negative information recorded on Mrs S's credit file as a result of the interest and charges of the loan, but also to remove any negative information recorded on her credit file regarding the loan once the outstanding balance has been cleared.

*HM Revenue & Customs requires Madison to deduct tax from any award of interest. It must give Mrs S a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

I have decided that Madison CF UK Limited, trading as 118 118 Money, acted unfairly when it gave Mrs S the loan. To put things right I direct Madison CF UK Limited, trading as 118 118 Money to pay compensation as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 11 July 2023.

Sally Allbeury
Ombudsman