

Complaint

Mr S has complained about personal loans Madison CF UK Limited (trading as “118 118 Money”) provided to him. He says the loans were unaffordable and were therefore irresponsibly lent to him.

Background

118 118 Money provided Mr S with a loan for £1,750.00 in April 2019. This loan had an APR of 44.9% and a term of 24 months. This meant that the total amount to be repaid of £2,549.28, including interest, fees and charges of £799.28, was due to be repaid in 24 monthly instalments of just over £105. This loan was settled with some of the proceeds from loan 2.

118 118 Money then provided Mr S with a second loan for £2,387.63 (£1,287.63 went towards settling the outstanding balance on loan 1) in February 2020. This loan had an APR of 44.9% and a term of 18 months. This meant that the total amount to be repaid of £3,456.72, including interest, fees and charges of £1,069.09, was due to be repaid in 24 monthly instalments of just under £145.

One of our adjudicators reviewed Mr S’ complaint and he thought that 118 118 Money ought to have realised that it shouldn’t have provided Mr S with his loans. So he thought that Mr S’ complaint should be upheld.

118 118 Money didn’t respond to our adjudicator’s assessment. So the case was passed to an ombudsman for a final decision as per the next step of our dispute resolution process.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Mr S’ complaint.

Having carefully considered everything I’ve decided to uphold Mr S’ complaint. I’ll explain why in a little more detail.

118 118 Money needed to make sure it didn’t lend irresponsibly. In practice, what this means is 118 118 Money needed to carry out proportionate checks to be able to understand whether Mr S could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the

amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

Given what it may consider to be the relatively low monthly repayments due on these loans, I can understand why 118 118 Money may believe that a relatively light touch assessment of affordability would have been proportionate given the circumstances here.

However, I'm concerned that 118 118 Money's own checks showed that Mr S was already significantly indebted and a significant proportion of his monthly income was already being taken up by repayments to existing credit commitments. Furthermore, the credit checks also showed that Mr S' indebtedness had increased between the applications for loans 1 and 2. I think that 118 118 Money ought to have been concerned as to why Mr S had an apparent want or need for so much credit in a relatively short period of time.

All of this leaves me persuaded by what Mr S has said about already being in a difficult financial position at the time. And while it's possible Mr S' financial position reflected his choices rather than financial difficulty, I'd add that my experience of these types of cases suggest this is unlikely, in the absence of any reasonable or plausible arguments from 118 118 Money, I've been persuaded to accept Mr S' version of events here.

As this is the case, I do think that Mr S' existing financial position meant that he was unlikely to be able to afford the repayments to these loans, without undue difficulty or borrowing further. And I'm satisfied that reasonable and proportionate checks would more like than not have shown 118 118 Money that it shouldn't have provided these loans to Mr S. As 118 118 Money provided Mr S with these loans, notwithstanding this, I'm satisfied it failed to act fairly and reasonably towards him.

Mr S ended up paying and is still being expected to pay interest, fees and charges on loans he shouldn't have been provided with. So I'm satisfied that Mr S lost out because of what 118 118 Money did wrong and that it should put things right.

Fair compensation – what 118 118 Money needs to do to put things right for Mr S

Having thought about everything, 118 118 Money should put things right for Mr S by:

- refunding all interest, fees and charges Mr S paid on loan 1;
- adding interest at 8% per year simple on any refunded payments from the date they were made by Mr S to the date of settlement†
- removing all interest, fees and charges applied to loan 2 from the outset. The payments Mr S made, whether to 118 118 Money or any third-party debt purchaser, should be deducted from the new starting balance – the £2,387.63 originally lent. If Mr S has already paid more than £2,387.63 on loan 2 then 118 118 Money should treat any extra as overpayments. And any overpayments should be refunded to Mr S;
- adding interest at 8% per year simple on any overpayments, if any, from the date they were made by Mr S to the date of settlement†
- removing any and all adverse information it recorded about loan 1 from Mr S' credit file. If no outstanding balance remains on loan 2 after all adjustments have been

made, all adverse information 118 118 Money recorded about loan 2 should also be removed from Mr S' credit file.

† HM Revenue & Customs requires 118 118 Money to take off tax from this interest. 118 118 Money must give Mr S a certificate showing how much tax it has taken off if he asks for one.

My final decision

For the reasons I've explained, I'm upholding Mr S' complaint. Madison CF UK Limited should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 30 May 2023.

Jeshen Narayanan
Ombudsman