

Complaint

Mr W has complained about personal loans Madison CF UK Limited (trading as “118 118 Money”) provided to him. He says the loans were unaffordable and worsened his financial position.

Background

118 118 Money provided Mr W with a loan for £1,000.00 in February 2019. This loan had an APR of 169.9% and a term of 18 months. This meant that the total amount to be repaid of £1,919.34, including interest, fees and charges of £919.34, was due to be repaid in 18 monthly instalments of just over £105.

118 118 Money then provided Mr W with a second loan for £2,000.00 in August 2020. This loan had an APR of 44.9% and a term of 12 months. This meant that the total amount to be repaid of £2,434.32, including interest, fees and charges of £434.32, was due to be repaid in 12 monthly instalments of just over £200.

Finally, 118 118 Money provided Mr W with a third loan for £5,000.00 in July 2022. This loan had an APR of 79.9% and a term of 24 months. This meant that the total amount to be repaid of £8,676.72, including interest, fees and charges of £3,676.72, was due to be repaid in 24 monthly instalments of just over £360.

One of our adjudicators reviewed Mr W’s complaint and she eventually concluded that 118 118 Money didn’t do anything wrong when providing loans 1 and 2 but that it ought to have realised that it shouldn’t have provided Mr W with loan 3. Mr W accepted our adjudicator’s assessment but 118 118 Money disagreed with the outcome on loan 3. So the case was passed to an ombudsman for a final decision.

As the parties are in agreement with the outcome reached on loans 1 and 2, this decision is only looking at whether 118 118 Money acted fairly and reasonably towards Mr W when providing loan 3.

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 W’s complaint.

Having carefully considered everything I’ve decided to partially uphold Mr W’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 W 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.

When Mr W approached 118 118 Money in July 2022 he was approaching for his third loan and this was for significantly more than what Mr W had previously borrowed and to some extent successfully repaid. I think that this coupled with the fact that the payments to this loan would be taking up a reasonable proportion of his declared monthly income meant that 118 118 Money ought to have found out more about more about Mr W before determining that this loan was affordable for him.

I think further checks would have extended into finding out more about Mr W's expenditure. And if 118 118 Money had done this here, I'm persuaded that it would have seen that Mr W was already in a difficult financial position at the time and also found out why this was the case. I'm also satisfied that reasonable and proportionate checks would more likely than not have shown 118 118 Money that Mr W's existing precarious financial position was because he was struggling financially.

So I'm persuaded by what Mr W has said about already being in a difficult financial position at the time and the reasons for this. And as reasonable and proportionate checks should have extended into finding out more about Mr W's income and expenditure, I'm satisfied that they would more like than not have shown 118 118 Money that it shouldn't have provided loan 3 to Mr W. As 118 118 Money provided Mr W with loan 3, notwithstanding this, I'm satisfied it failed to act fairly and reasonably towards him.

Mr W ended up paying interest, fees and charges on a loan he shouldn't have been provided with in the first place. So I'm satisfied that Mr W 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 W

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

- removing all interest, fees and charges applied to loan 3 from the outset. The payments Mr W made, whether to 118 118 Money or any third-party debt purchaser, should be deducted from the new starting balance – the £5,000.00 originally lent. If Mr W has already paid more than £5,000.00 on loan 3 then 118 118 Money should treat any extra as overpayments. And any overpayments should be refunded to Mr W;
- adding interest at 8% per year simple on any overpayments, if any, from the date they were made by Mr W to the date of settlement†
- if no outstanding balance remains on loan 3 after all adjustments have been made, all adverse information 118 118 Money recorded about loan 3 should be removed from Mr W's credit file.

† HM Revenue & Customs requires 118 118 Money to take off tax from this interest. 118 118 Money must give Mr W 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 partially upholding Mr W'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 W to accept or reject my decision before 30 May 2023.

Jeshen Narayanan
Ombudsman