

Complaint

Mr A has complained about a loan Madison CF UK Limited (trading as “118 118 Money”) provided to him. He says the loan was unaffordable.

Background

118 118 Money provided Mr A with a loan for £1,000.00 in September 2018. This loan had an APR of 99.9% and a term of 24 months. This meant that the total amount to be repaid of £1,899.12, including interest, fees and charges of £899.12, was due to be repaid in 24 monthly instalments of just under £80.

One of our adjudicators reviewed Mr A’s complaint and she thought 118 118 Money shouldn’t have provided Mr A with his loan. So she thought that Mr A’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 stage 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 A’s complaint.

Having carefully considered everything I’ve decided to uphold Mr A’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 find out enough about Mr A such that it could have a reasonable understanding of whether Mr A 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 this loan, I can to some extent understand why 118 118 Money may believe that a relatively light touch assessment of affordability would have been proportionate given the circumstances here.

However, the information 118 118 Money has provided suggested that it carried out a credit check. The credit check showed that Mr A was already significantly indebted and had previously had difficulties with credit. Mr A was already using most of the credit available to him on his revolving credit commitments, was over the limit on some of them, had recently taken out new accounts and increased the limits on others.

All of this ought to have indicated that Mr A may have been developing a reliance on credit. So I think that 118 118 Money ought to have obtained more further information from Mr A in order to have been able to make an informed decision on whether to lend to him.

Overall and having considered everything, I'm persuaded by what Mr A has said about already being in a difficult financial position at the time he took out this loan. And this is supported by the information he's provided on his financial circumstances at the time. And while it's possible Mr A's indebtedness 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 A's version of events.

As this is the case, I do think that Mr A's existing financial position meant that he was unlikely to be able to afford the payments to this loan, without suffering adverse consequences or borrowing further.

And I'm satisfied that reasonable enquiries into Mr A's circumstances would more like than not have shown 118 118 Money that it shouldn't have provided this loan to him. As 118 118 Money provided Mr A with this loan, notwithstanding this, I'm satisfied it failed to act fairly and reasonably towards him.

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

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

- removing all interest, fees and charges applied to Mr A's loan from the outset. The payments Mr A made, whether to 118 118 Money or any third-party debt purchaser, should be deducted from the new starting balance – the £1,000.00 originally lent. If Mr A has already paid more than £1,000.00 on this loan then 118 118 Money should treat any extra as overpayments. And any overpayments should be refunded to Mr A;
- adding interest at 8% per year simple on any overpayments, if any, from the date they were made by Mr A to the date of settlement†
- if no outstanding balance remains after all adjustments have been made, all adverse information 118 118 Money recorded about this loan should be removed from Mr A's credit file.

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

Jeshen Narayanan
Ombudsman