The complaint

Mr M, through his representative, complains that Madison CF UK Limited, trading as 118118 Money ("Madison"), lent to him irresponsibly.

What happened

Mr M, through his representative, complains that Madison CF UK Limited, trading as 118118 Money ("Madison"), lent to him irresponsibly.

Loan	Approved	Amount	Repayment	Closed
1	15 October 2019	£1,000	£99.97 x 12 Total interest to pay £199.64	Refinanced into loan 2. £284.88 paid off with loan 2 funds.
2	7 July 2020	£2,234.88	£133.59 x 24 Total interest to pay £971.28	4 July 2022

After Madison had responded to his complaint on 15 February 2023, then his representative referred it to the Financial Ombudsman Service. Mr M said

> *'I had just come out of a DMP with* [name of DMP manager] *and applied for the loan through* [Credit Agency name]. *I never spoke to anyone or provided additional information. The 2nd loan 118 118 Money txt me to advise I was eligible for a top up.*
>
> *I used the funds from the first loan as I started a new job and it would be sometime before my next income for my new job.'*

Mr M has also told us on his complaint form that he was gambling at the time and using payday loans to fund the habit. He said that 'at its worst' it was about £200-£300 a month.

One of our adjudicators looked at the complaint about the loans (not the credit card) and thought that for loan 1, Madison had carried out the checks he would have expected it to have carried out and so did not uphold the complaint about loan 1.

For loan 2, our adjudicator did think that as there had been a missed payment on the first loan and then the credit search Madison did before loan 2 showed a marked increase in Mr M's debt commitments, then it ought to have done some additional checks. Mr M's representative had already sent to us the bank account statements for the period leading up to loan 2's approval. And having looked at them he did not think that they revealed financial difficulties or concerns such that Madison would have been prompted to have refused the loan. So, he dd not uphold the complaint about either of the loan approvals.

Mr M's representative responded to provide submissions as to why it disagreed, all of which I have reviewed. The unresolved complaint was passed to me to decide.

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 the relevant rules, guidance, and good industry practice - on our website.

Considering the relevant rules, guidance, and good industry practice, what I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are whether Madison completed reasonable and proportionate checks to satisfy itself that Mr M would be able to repay in a sustainable way? And, if not, would those checks have shown that Mr M would've been able to do so?

If I determine that Madison did not act fairly and reasonably in its dealings with Mr M and that he has lost out as a result, I will go on to consider what is fair compensation.

The rules and regulations in place required Madison to carry out a reasonable and proportionate assessment of Mr M's ability to make the repayments under these agreements. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so Madison had to think about whether repaying the loans would be sustainable and/or cause significant adverse consequences for Mr M. In practice this meant that Madison had to ensure that making the payments to the loan wouldn't cause Mr M undue difficulty or significant adverse consequences.

In other words, it wasn't enough for Madison to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr M. 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 several factors including – but not limited to – the 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.

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 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 the arguments, evidence and information provided in this context and what this all means for Mr M's complaint.

For loan 1, in October 2019 Mr M gave to Madison very little information. He informed it that he was living at home with parents and had done for more than 19 years. He told Madison he worked full time and received £1,415 a month but gave no more details about any expenditure.

Madison did a credit search and discovered he had total debts worth of £776 which is a low figure. Most of this was on credit cards. Madison would have seen that Mr M had six active accounts. He did have three defaulted accounts within the previous 36 months – these were in February, July, and October 2016. But they were some time before the application for the Madison loan.

Madison would have seen that he had a County Court Judgment (CCJ) registered from October 2017 so that was two years before the application was made for loan 1. The Judgment debt was £715. At the time Madison did its credit search the CCJ would have shown as outstanding and 'active' whereas if it had asked about it then Mr M would have been able to tell Madison that he'd settled the CCJ debt on 3 September 2019. I know that from Mr M's personal credit file dated March 2023 sent to us by his representative.

Madison would have known that one of Mr M's current accounts closed in August 2019 having had arrears registered on it. It was marked as 'settled'.

Mr M's representative has submitted to us that the new credit card approvals with other lenders in the lead up to Mr M applying of the Madison loan 1, were negative elements which ought to have acted as some sort of alert to Madison. But that's not necessarily the case. It can demonstrate good credit rating such that the credit card applications were approved.

One card with a limit of £200 was approved April 2018, so 18 months before applying for loan 1. One card with £450 limit was approved October 2018 so a year before the application for loan 1. Another with a limit of £250 was approved January 2019. So, all were relatively low value and were not up to their maximum limits.

There were significant cash advances taken from the credit cards in the previous 12 months - £2,130. But not in the recent months before loan 1 was applied for.

And even if this information had been enough to prompt Madison to have reviewed Mr M's bank account statements, the copies we have received from Mr M's representative do not show transactions with which to be concerned. There's no evidence of gambling and apart from payments to his credit cards, a mobile phone, gym membership and other discretionary spends, which I'd expect to see, there were no transactions which likely would have caused Madison to think that the £99 a month to repay loan 1 was unaffordable.

So, I consider that Madison carried out proportionate checks and acted on the information it saw. Lenders such as Madison are used to seeing adverse entries on its' customers' credit file reports. And if it had gone a step further and looked at the bank statements at loan 1 (which I'm not sure it needed to do) then having reviewed what Mr M has sent to us, I do not consider those transactions would have altered the decision to lend.

I do not uphold the complaint about loan 1.

Loan 2 was applied for in July 2020 and I agree with our adjudicator that Madison ought to have investigated Mr M's finances in a more detailed way at this stage. The second loan was used to refinance loan 1 and loan 2 was for more money over a longer loan term. Also, I say this because Mr M had missed a payment on Loan 1 in April 2020, which may have indicated to Madison a problem.

The second credit search Madison carried out showed that he had increased his overall debt (shown on the credit search Madison did). But I do note that the overall debt of £3,118 still was not what I'd consider high but it was a marked increases since loan 1. One reason for the increase in debt was that Mr M had taken the credit card with Madison – that was registered on the second set of credit results it carried out – it had a limit of £500 and was approved in February 2020. The balance was at £370 when Mr M applied for loan 2. Across all his credit cards Mr M still had available credit as he was at a '*balance to limit ratio*' of 82%. I do not consider that an indication of financial difficulties.

So, if Madison had reviewed, say, Mr M's bank account statements for the period leading up to July 2020 then it would have seen (amongst other items) card payments to the credit cards, discretionary spending such as gym and TV subscriptions, small lottery payment, gaming payments, two contracts to a telephone provider and food shops. One credit card payment to Madison itself appears to have been returned unpaid in June 2020. And he made two payments to a high cost instalment lender. But those would have been on Mr M's credit file and so not a new information to Madison.

What his bank statements do not show is an increase in gambling as his representative has submitted to us. After the £1,950 credit into his account from Madison on 7 July 2020 then there were a few transactions on a betting website. But these were afterwards on 10 July 2020. And Mr M's own explanation is that even at its worst the gambling payments were only ever £200 to £300 a month. I do not think that Madison knew, or was likely to have known, of the gambling but even if it had, and so had factored those into the expenditure Madison likely would have considered the loan still affordable.

Madison was aware that Mr M had been living at home with is parents and the lack of payments to things like utility companies or council tax would have shown Madison that it was highly likely that Mr M still was living at the same address – with is his parents.

Mr M's representative said the bank statements would have shown payments to his grandparents but that does not necessarily mean a debt payment. And if explanations were needed by Mr M to explain some of the transactions in the statements than I note that Mr M received money from friends as well – regularly and sometimes twice in a day. So, overall, Mr M seemed to be able to afford the payments for loan 2.

I do not uphold Mr M's complaint.

My final decision

My final decision is that I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 16 August 2023.

Rachael Williams
Ombudsman