

Complaint

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

Background

118 118 Money provided Mr P with a loan for £2,000.00 in May 2019. This loan had an APR of 39.9% and a term of 24 months. This meant that the total amount to be repaid of £2,774.16, including interest, fees and charges of £774.16, was due to be repaid in 24 monthly instalments of just under £115.59. This loan was settled early in February 2021.

118 118 Money then provided Mr P with a second loan for £1,300.00 June 2021. This loan had an APR of 44.9% and a term of 24 months. This meant that the total amount to be repaid of £1,847.28, including interest, fees and charges of £547.28, was due to be repaid in 24 monthly instalments of £76.97.

One of our adjudicators reviewed Mr P’s complaint and he concluded that 118 118 Money didn’t do anything wrong when providing loan 1 but that it ought to have realised that it shouldn’t have provided Mr P with loan 2.

Mr P didn’t disagree with our adjudicator’s assessment but 118 118 Money did. So the case was passed to an ombudsman for a final decision.

As neither party has disagreed with the outcome reached on loan 1, this decision is only looking at whether 118 118 Money acted fairly and reasonably towards Mr P when providing him with loan 2.

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 P’s complaint.

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

I think that 118 118 Money ought to have realised from the credit checks it carried out that Mr P was already significantly indebted and that his number of active credit accounts had increased between applications. This coupled with the fact that the payments to this loan would result in him paying out a reasonable proportion of his monthly income towards repayments to credit meant that 118 118 Money ought to have found out more about more about Mr P before determining that this loan was affordable for him.

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

So I'm persuaded by what Mr P 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 P'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 2 to Mr P. As 118 118 Money provided Mr P with loan 2, notwithstanding this, I'm satisfied it failed to act fairly and reasonably towards him.

Mr P 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 P 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 P

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

- refunding all interest fees, and charges Mr P paid as a result of loan 2:
- adding interest at 8% per year simple on any refunded payments from the date they were made by Mr P to the date of settlement†
- removing any adverse information it may have recorded about loan 2 from Mr P's credit file;

† HM Revenue & Customs requires 118 118 Money to take off tax from this interest. 118 118 Money must give Mr P 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 P'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 P to accept or reject my decision before 24 August 2023.

Jeshen Narayanan
Ombudsman