

The complaint

Mrs G complains that Madison CF UK Limited, trading as 118 118 Money ("Madison") irresponsibly granted her two loans she couldn't afford to repay.

What happened

In October 2020 Mrs G took out a fixed sum loan agreement for a loan for £2,000 that was payable over 24 months. Under the terms of the loan agreement Mrs G was required to pay monthly repayments of £118.38.

In January 2021 Mrs G took out a further loan. This was agreed by Madison in response to Mrs G's request for a two month payment freeze on the October 2020 loan. Under the terms of this agreement Mrs G was required to make 22 monthly repayments of £129.90.

Mrs G took out an earlier loan with Madison, in November 2019 which has been settled. Mrs G hasn't asked us to look into that loan.

Mrs G says that Madison didn't complete adequate affordability checks for the 2020 and 2021 loans. She is also unhappy with the interest and charges that were added to each loan.

Madison says it carried out a thorough assessment which included checks that were fair and proportionate.

Our Investigator didn't recommend the complaint be upheld. He thought Madison didn't act unfairly or unreasonably by approving the loan.

As Mrs G didn't agree, her complaint has been passed to me for a final decision.

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.

Madison will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don't consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

I'd like to reassure Mrs G that I've looked at the complaint afresh and independently reviewed all the available information, including what Mrs G said in response to our investigator's view. Having done so, I am not upholding Mrs G's complaint for broadly the same reasons as our investigator. I'll explain why.

The rules don't say exactly what a lender should look at before agreeing to lend, but reasonable and proportionate checks should be carried out. Lenders must work out if a borrower can sustainably afford the loan repayments alongside the other reasonable expenses that the borrower also has to pay. This should include more than just checking that

loan payments look to be affordable. A proportionate check might also require the lender to find out the borrower's credit history and also take further steps to verify the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if a loan or loans would have been approved if the checks had been done. If proportionate checks were done and a loan looks affordable, a lender still needs to think about whether there's any other reason why it would be irresponsible or unfair to lend. For example, if the lender should have realised that the loan was likely to lead to significant adverse consequences or more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

Both of the loans were high interest loans so I think there was a particular onus on Madison to make sure it wasn't lending irresponsibly to Mrs G given the overall cost of each loan to her. So I've kept this in mind when looking at the decision to grant each loan.

Looking at what happened when Mrs G applied for the October 2020 loan, I can see that on her application she said she had a monthly income of around £3,000. Whilst I can also see that Madison ran checks with credit reference agencies - which would have helped to establish her indebtedness with other lenders - I can't see what else it did to find out about Mrs G's financial situation, including what her regular non-credit related spending, such as food, transport and housing costs was likely to be each month. I've also noted from the October 2020 application that Mrs G said she was living with her parents. I would have assumed it likely that Mrs G would be providing some level of financial support or contribution out of her income.

Without carrying out further enquiries, I think there was a risk that Mrs G might not have been able to fully repay the loan within a reasonable period of time. I think much the same can be said about the January 2021 loan. I say that because even if it was set up to accommodate the consumer's request for a payment holiday, Madison still needed to check that Mrs G would be able to afford to repay the new agreement. In fact, I would say there was a greater obligation to check before granting the new lending given that it seems likely that Mrs G's financial position must have deteriorated by then in order for her to have requested the new loan arrangement. In particular, having seen that Mrs G has spoken of having significant issues with gambling, better checks might well have alerted Madison to this as a potential issue that would affect the affordability of the loan.

Our investigator asked Mrs G to provide us with copies of further information, such as payslips and bank statements. Information like this can help us understand what, if anything, Madison might have found out if it completed reasonable and proportionate checks when looking into Mrs G's financial circumstances before approving each of the loans. However, Mrs G hasn't been able to provide sufficient additional information to help us determine whether or not Madison made a fair lending decision, even though our investigator gave Mrs G additional time to do so.

It follows that I'm not persuaded that I've seen enough to say Madison acted unfairly in approving each loan. So I don't think it needs to do anything to put things right.

I am sorry to have to disappoint Mrs G on this occasion, especially given the difficult personal circumstances she has told us about. I would though wish to remind Madison of its obligation to seek to come to an appropriate arrangement with Mrs G for the repayment of the loan that remains outstanding. This includes using forbearance where it is possible and reasonable to do so.

My final decision

For the reasons I've given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs G to accept or reject my decision before 2 February 2024.

Michael Goldberg

Ombudsman