

Complaint

Miss H has complained about loans Madison CF UK Limited (trading as “118 118 Money”) provided to her. She says the loans were unaffordable and shouldn’t have been lent.

Background

118 118 Money provided Miss H with an initial loan for £1,000.00 in February 2019. This loan had an APR of 79.9% and a term of 18 months. This meant that the total amount to be repaid of £1,512.54, including interest, fees and charges of £512.54, was due to be repaid in 18 monthly instalments of just under £85.

118 118 Money then provided Miss H with a second loan, for £3,500.00, in April 2022. This loan had an APR of 79.9% and a term of 12 months. This meant that the total amount to be repaid of £4,800.60, including interest, fees and charges of £1,300.60, was due to be repaid in 12 monthly instalments of just over £400.

One of our adjudicators reviewed Miss H’s complaint and he thought 118 118 Money hadn’t done anything wrong when providing loan 1, but that it ought to have realised that it shouldn’t have provided Miss H with loan 2. So he thought that Miss H’s complaint should be partially upheld.

Miss H didn’t disagree with our adjudicator’s assessment. And 118 118 Money didn’t respond at all so the case was passed to an ombudsman for a final decision as per the next stage of our dispute resolution process.

As there no longer appears to be a dispute over loan 1, this decision is only looking at whether 118 118 Money acted fairly and reasonably when providing loan 2 to Miss H. And any reference made to loan from this point onwards is made with reference to 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 Miss H’s complaint.

Having carefully considered everything I’ve decided to uphold Miss H’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 Miss H such that it could have a reasonable understanding of whether Miss H 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.

The information 118 118 Money has provided suggested that it carried out credit checks before both loans were provided. The credit check prior to loan 2 showed that Miss H's indebtedness had grown significantly since she applied for loan 1.

So I think that 118 118 Money ought to have obtained more further information from Miss H in order to have been able to make an informed decision on whether to lend to her. Furthermore, it's clear from the additional information I've seen that Miss H's existing expenditure meant that she was always going to struggle to make the necessary payments – particularly in light of the proportion of her income that they would be taking up.

Overall and having considered everything, I'm persuaded by what Miss H has said about already being in a difficult financial position at the time she took out loan 2. And while it's possible Miss H's indebtedness reflected her 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 Miss H's version of events.

As this is the case, I do think that Miss H's existing financial position meant that she was unlikely to be able to afford the payments to loan 2, without suffering adverse consequences or borrowing further.

And I'm satisfied that reasonable enquiries into Miss H's circumstances would more like than not have shown 118 118 Money that it shouldn't have provided loan 2 to her. As 118 118 Money provided Miss H with loan 2, notwithstanding this, I'm satisfied it failed to act fairly and reasonably towards her.

Miss H has ended up paying and is being expected to pay interest, fees and charges on a loan she shouldn't have been provided with. So I'm satisfied that Miss H 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 Miss H

Having thought about everything, 118 118 Money should put things right for Miss H by:

- removing all interest, fees and charges applied to loan 2 from the outset. The payments Miss H made, whether to 118 118 Money or any third-party debt purchaser, should be deducted from the new starting balance – the £3,500.00 originally lent. If Miss H has already paid more than £3,500.00 on this loan then 118 118 Money should treat any extra as overpayments. And any overpayments should be refunded to Miss H;
- adding interest at 8% per year simple on any overpayments, if any, from the date they were made by Miss H 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 Miss H's credit file.

† HM Revenue & Customs requires 118 118 Money to take off tax from this interest. 118 118 Money must give Miss H a certificate showing how much tax it has taken off if she asks for one.

I'd also remind 118 118 Money of its obligation to exercise forbearance and due consideration, in the event it decides to collect on any outstanding balance and it be the case that Miss H is experiencing financial difficulty.

My final decision

For the reasons I've explained, I'm upholding Miss H'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 Miss H to accept or reject my decision before 12 October 2023.

Jeshen Narayanan
Ombudsman