

The complaint

Mr L complains that Madison CF UK Limited (trading as 118 118 Money) was irresponsible to lend to him.

What happened

Mr L was approved for the following loan from 118 118 Money in November 2021:

<u>Loan</u>	<u>Date</u>	<u>Amount</u>	<u>Term</u>	<u>Repayment</u>	<u>Repaid</u>
1	27 Nov 2021	£1,500	24m	£109.65	1 Jul 2022

Mr L says that he was approved for the loan online and is now struggling to pay essential bills. He says 118 118 Money did not sufficiently review his circumstances and he repaid the loan with further borrowing.

118 118 Money says Mr L was asked to provide information about his income and expenditure, which was then validated. It said it checked his credit file and was satisfied the loan was correctly approved.

Our investigator recommended the complaint should be upheld. She wasn't satisfied that 118 118 Money had carried out proportionate checks and considered that, had it done so, it would have found the loan was unaffordable to Mr L. She recommended that Mr L should only have to repay the money he borrowed, and that any adverse information should be removed from his credit file.

118 118 Money responded to say, in summary, that Mr L was not reliant on cash advances every month and had only taken out two new credit accounts in the preceding six months. It says this, and a lack of short-term lending, shows that Mr L was not in a re-financing cycle. 118 118 Money added that there was no adverse information on the credit file and Mr L was sometimes making more than the minimum repayment to credit cards. It said it had verified Mr L's declared income and its calculations showed he had more than £500 of disposable income each month.

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.

I need to take into account the relevant rules, guidance and good industry practice.

Bearing this in mind, in coming to a decision on Mr L's case, I have considered the following questions:

- Did 118 118 Money complete reasonable and proportionate checks when assessing Mr L's loan application to satisfy itself that he would be able to repay the loan in a sustainable way?
 - If not, what would reasonable and proportionate checks have shown?
- Did 118 118 Money make a fair lending decision?
- Did 118 118 Money act unfairly or unreasonably in some other way?

I have considered the information from the checks carried out by 118 118 Money and it shows:

- Mr L said he was employed full time and his monthly income was £1,961, which 118 118 Money says it validated;
- Mr L said he was a homeowner with no mortgage in his online application, although 118 118 Money used a rental figure of £238 in its expenditure calculations;
- The purpose of the loan was to buy a car;
- Nine active credit accounts, of which seven had been opened since October 2020:
 - Two loans for which the combined monthly repayments were £238;
 - Four credit card accounts for which the total balance was £4,282 with combined limits of £4,591;
 - Two mail order accounts with a combined balance of £2,348, limits totalling £2,750 and total regular payments of £129;
 - An overdraft of £1,818 with a £2,000 limit;
- There was one default from December 2018 that was satisfied in April 2019;
- Mr L had taken out 8 cash advances from his credit cards, totalling £1,100, in the last six months;
- There were no arrears or county court judgements on Mr L's credit file.

118 118 Money said it used an estimate for Mr L's living expenditure and found the loan to be affordable.

I'm not satisfied these checks were reasonable and proportionate for the loan because:

- The loan was for a period of 24 months and 118 118 Money needed to be sure the repayments were sustainable for that period;
- Mr L's borrowing had escalated quite rapidly since October 2020;
- Regular cash advances can be a sign of financial difficulty;
- He was already committed to paying around 30% of his income to credit repayments and the new loan increased this to over 35%;

So I've had a look at Mr L's bank statements from the time as a reasonable proxy for what proportional checks may have shown and found that he did not receive any income from employment in the weeks preceding the loan. Mr L has now confirmed that his final salary payment was in August 2021.

As I consider that 118 118 Money should have carried out better checks, and those checks were likely to have shown Mr L's lack of income, it follows that I find the loan was unaffordable for him.

In summary therefore, I don't find 118 118 Money made a fair lending decision, although I don't consider it acted unfairly or unreasonably in any other way.

My final decision

My decision is that I uphold this complaint. Madison CF UK Limited (trading as 118 118 Money) should:

- Add up the total amount of money Mr L received as a result of having been given the loan. The repayments Mr L made should be deducted from this amount;
 - Any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement)*. 118 118 Money should also remove all adverse information regarding this loan from Mr L's credit file;

*HM Revenue & Customs requires 118 118 Money to deduct tax from this interest. 118 118 Money should give Mr L a certificate showing how much tax it's deducted if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 15 April 2024.

Amanda Williams
Ombudsman