

The complaint

Mr L, through a representative, says Madison CF UK Limited, trading as 118 118 Money, irresponsibly lent to him.

What happened

Mr L took out a 24-month loan for £3,500 in March 2020. The monthly repayments were £277.61 and the total repayable was £6,662.64. In May 2021 a second loan agreement was put in place. No additional money was lent - the purpose was to restructure loan 1 to give Mr L a three-month payment freeze followed by 14 monthly payments of £249.69. The total repayable was £3,495.66.

Mr L says 118 118 Money did not complete proportionate checks prior to lending. He has had to enter a debt arrangement scheme as a result of his subsequent financial difficulties.

Our investigator did not uphold Mr L's complaint. Mr L disagreed with this assessment and asked for an ombudsman's review. He said proportionate checks would have shown he had taken out five new credit agreements in the six months prior to application, increased his limits with two lenders in the previous 12 months and been over limit eight times in the six months prior. So it was evident he was under financial pressure. His bank statements also showed he was gambling. So in the round 118 118 Money was not responsible to lend to him.

I reached a different conclusion to the investigator so I issued a provisional decision to give both parties a chance to comment. An extract follows and forms part of this final decision. I asked for all comments and any new evidence to be submitted by 27 February 2024.

Extract from my provisional decision

118 118 Money has provided evidence to show that when Mr L first applied it asked about his income and his employment, residential and marital status. It asked about his fixed living costs and what he spent on card and loan repayments. It compared his declarations to national averages and checked his credit file to understand his credit history and existing commitments. It did not ask about the purpose of the loan. From these checks combined 118 118 Money was satisfied Mr L could afford the loan.

I am not wholly persuaded the checks were proportionate as I cannot see 118 118 Money checked Mr L's declared income and the monthly repayment was a not insignificant proportion of that income. However I won't comment further on that as even based on the information 118 118 Money gathered, I don't think it made a fair lending decision. I'll explain why.

From its checks 118 118 Money understood Mr L's net monthly income was £2,010. And that his existing unsecured credit commitments were £713. So he was already spending over a third of his income on credit – a level which ought to have concerned 118 118 Money. And giving this loan to Mr L increased that to almost half his income. On top of that he had a mortgage commitment of £388 a month. With this level of credit expenditure I think 118 118

Money ought to have realised there was a risk Mr L would not be able to sustainably repay this loan over its term.

I also think as its affordability assessment concluded he would have around £130 disposable income each month it ought not to have lent to Mr L. I say this as it accepted less than £30 a week for food, with no allocation for transport/petrol or mobile costs. It do not find that to be a realistic income and expenditure analysis.

It follows I think 118 118 Money was wrong to lend to Mr L.

118 118 Money has explained no further credit was extended to Mr L at the time of loan 2 so there was no lending decision, rather it was a new agreement to facilitate the payment freeze. Logically, however, as I have found it was wrong to give loan 1, the interest and charges applied to any subsequent restructuring of the debt must be considered when 118 118 Money is putting things right.

I have not found 118 118 Money acted unfairly towards Mr L in some other way.

I then set out what 118 118 Money would need to do to put things right.

Mr L responded saying he had nothing further to add. 118 118 Money did not respond.

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 of the relevant rules, guidance and good industry practice - on our website. I have followed it here to decide Mr L's complaint.

As neither party sent in any new information I have no reason to change the findings or outcome I set out in my provisional decision.

It follows, for the reasons set out above, I find 118 118 Money was wrong to lend to Mr L.

Putting things right

It's reasonable for Mr L to repay the capital amount that he borrowed but he has paid interest and charges on a loan(s) that shouldn't have been given to him. So he has lost out and 118 118 Money needs to put things right.

118 118 Money has sold the debt from the restructured agreement so it should first try to buy it back. If that is not possible it must work with the new owner to achieve the same outcome as the steps set out below.

It should:

- Remove all interest, fees and charges on the loan(s) and treat all the payments Mr L made as payments towards the capital.
- If reworking Mr L's loan account results in him having effectively made payments above the original capital borrowed, then 118 118 Money should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.

- If reworking Mr L's loan accounts results in there being an outstanding capital balance 118 118 Money must agree an affordable repayment plan with Mr L and the administrator of his debt arrangement scheme, treating him fairly and with forbearance as appropriate.
- Remove any adverse information recorded on Mr L's credit file in relation to the loan(s) once any capital balance owing is repaid in full.

*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. If it intends to apply the refund to reduce an outstanding balance it must do so after deducting the tax.

My final decision

I am upholding Mr L's complaint. Madison CF UK Limited, trading as 118 118 Money, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 27 March 2024.

Rebecca Connelley
Ombudsman