

## The complaint

Miss M complains that Madison CF UK Limited trading as 118 118 Money (“118 118”) was irresponsible to lend to her on six occasions.

## What happened

118 118 agreed six loans for Miss M from April 2018 to December 2021. I’ve summarised some of the information 118 118 provided about these loans in the table below.

Loan	Start	End	Amount	Total owed	Monthly repayment	Term (months)
1	04/04/2018	06/10/2018	£2,000	£3,397.92	£141.58	24
2	06/10/2018	04/01/2019	£2,598	£4,213.00	£183.19	24
3	06/08/2019	18/10/2019	£1,000	£1,210.80	£100.90	12
4	04/12/2020	02/04/2021	£1,000	£1,212.48	£101.04	12
5	09/05/2021	27/07/2021	£1,000	£1,207.32	£100.61	12
6	13/12/2021	25/07/2022	£1,000	£1,255.32	£104.61	12

Miss M complained to 118 118 about the loans in July 2023. She said that she had other debts at the times they were agreed, including other short term loans and an overdraft, and she didn’t think 118 118 checked her finances sufficiently before lending to her.

118 118 didn’t uphold Miss M’s complaint. It said it relied on information she provided and information from her credit file to make its lending decisions and it didn’t lend irresponsibly. 118 118 offered Miss M a goodwill gesture of £240 for any detriment or inconvenience its lending might have caused. Miss M didn’t accept this offer and referred her complaint to us.

One of our investigators looked into things and found that although 118 118 carried out proportionate checks it should have seen that Miss M was in financial difficulty from the outset and should not have agreed to lend to her on any occasion. They recommended that Miss M’s complaint be upheld in full.

118 118 didn’t agree with this recommendation and asked for the complaint to come to an ombudsman to decide and it came to me. I sent out a provisional decision on 4 April 2024 explaining why I thought Miss M’s complaint should succeed in relation to her last three loans, shown in the table above as loans 4, 5 and 6.

118 118 acknowledged receipt of my provisional decision and said it had nothing further to add. Miss M responded to say her complaint about her second and third loans should also be upheld, and provided her bank statements from around the time she applied for these loans.

I reviewed this new information alongside everything else and decided that Miss M’s complaint about her second loan should also be upheld but not her third. I explained my conclusions in emails to Miss M and to 118 118 and shared the information I’d relied on.

Miss M responded to say she accepted what I'd said and 118 118 confirmed that it didn't have any further comments.

This is my final decision on this complaint and will be legally binding on both parties should Miss M chose to accept it.

### **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.

Having reviewed everything again, including the new information Miss M provided following my provisional decision, I have concluded that Miss M's complaint about loans 2, 4, 5 and 6 (as shown in the above table) should succeed. I'll explain why again in this final decision and refer to the new information Miss M provided where appropriate.

As before, when making my decision I've had regard to the regulator's rules and guidance on responsible lending (set out in its consumer credit handbook – CONC) which lenders, such as 118 118, need to abide by. 118 118 will be aware of these, and our approach to this type of lending is set out on our website, so I won't refer to the regulations in detail here but will summarise and refer to them where appropriate.

Before entering into a credit agreement, 118 118 needed to check that Miss M could afford to meet her repayments out of her usual means for the term of the loan, without having to borrow further, while meeting her existing commitments and without the repayments having a significant impact on her financial situation. The checks needed to be proportionate to the nature of the credit and to Miss M's particular circumstances. For example, more in depth checks might be proportionate the higher the loan amount, the longer the loan term or the lending history.

The overarching requirement was that 118 118 needed to pay due regard to Miss M's interests and treat her fairly. CONC gave an example of contravening this as 'targeting customers with regulated credit agreements which are unsuitable for them by virtue of their indebtedness, poor credit history, age, health, disability or any other reason.'

With this in mind, my main considerations are did 118 118 complete reasonable and proportionate checks when assessing Miss M's applications to satisfy itself that she would be able to make her repayments without experiencing adverse consequences? If not, what would reasonable and proportionate checks have shown? Did 118 118 make fair lending decisions?

#### Loan 1 agreed in April 2018

Miss M said she earned £1,653 a month when she applied for her first loan, and that her outgoings came to £1,060. 118 118 checked Miss M's credit file and found she had £810 of existing debt comprising a credit card balance and a small overdraft balance of less than £50.

Miss M said that 118 118 should have declined her loan applications because she had existing debts. However, when Miss M applied for her first loan her existing debt repayments, along with the payment of £141.58 for her new loan, weren't so large relative to what she'd said about her means that there was an obvious risk of her not being able to meet the repayments without difficulty. There was no adverse information such as defaulted accounts or court judgements shown on her credit record to suggest that she was having difficulty with her finances at that time. Altogether, I don't think there was anything in the

information 118 118 had about Miss M's circumstances that should have led it to automatically decline to lend to her or to complete further checks.

In this context and considering the amount Miss M was borrowing, I've concluded that the checks 118 118 carried out on this occasion were reasonable and proportionate, and it didn't treat Miss M unfairly or without regard to her interests by lending to her on the basis of the information it had.

#### Loan 2 agreed in October 2018

About six months later Miss M borrowed a second loan from 118 118. £1,698 of this was used to clear her existing loan and £900 was paid directly to Miss M. She gave the same information as before about her income and expenses in her application, which suggested she had around £600 spare a month to meet her debt repayments and any unexpected costs.

The credit file information 118 118 gathered showed that in the short time since Miss M's first loan had been agreed she'd taken out another two other loans amounting to over £2,000 with combined repayments of over £200 and she'd opened a new credit card with a £300 limit. Miss M had taken out two cash amounts on her existing credit card in the previous six months and her account was now reported as being over her £800 limit. Her overdraft limit had been increased from £50 to £1,100 in August just a few months before and she'd already spent this amount.

I think 118 118 ought to have been concerned that Miss M had taken on relatively significant amounts of credit in a short space of time with loan repayments of over £200 and credit card repayments of at least £50 plus overdraft repayments. Miss M might still have been able to afford her repayments of £183.19 for this new loan on a pounds and pence basis, but I think the information 118 118 had should have prompted it to carry out further checks before lending to her again to make sure she could meet her repayments without difficulty for the two year loan term.

I'd said in my provisional decision that "*I don't have any detailed information from Miss M about her living costs or financial commitments, other than those shown on her credit file, and I haven't been provided with any of her bank statements. So while I think 118 118 didn't carry out a proportionate check on this occasion, I don't have enough information to say what such a check would likely have revealed about Miss M's finances. I can't find that 118 118 got something wrong when it agreed to lend to Miss M on this occasion. I understand that Miss M repaid the loan within a few months.*"

In response, Miss M provided her bank statements from the time and I reviewed these. Around the time of this second loan, Miss M's net monthly wage was £1,653 and her usual outgoings, as set out below, exceeded this. I have taken into consideration that this loan was used in part to repay her first, however her monthly debt repayments increased by £42 and the loan was clearly unaffordable.

£425 Debt repayments on three loans, two credit cards and overdraft (interest only)  
£500 Conservative estimate for identifiable food, fuel and bills  
£400 Rent  
£200 Childcare costs  
£160 Regular standing order

Had 118 118 carried out a proportionate check on this occasion, I think it's likely it would have seen that the loan would be unaffordable for Miss M and declined to lend to her. I've found 118 118 was irresponsible to have entered into this agreement.

### Loan 3 agreed in August 2019

Miss M repaid her second loan in full in January 2019 and didn't apply to 118 118 again until August. She gave her income as £2,232 but I don't know what she said about her expenses at that time. The credit file information 118 118 gathered showed that Miss M hadn't opened any new accounts since taking out her second loan. It also showed that Miss M had cleared her credit card balance in January 2019 though it had risen again to over £1,000, and that her overdraft limit had increased to £2,000. Miss M had been spending up to this limit in the previous six months, though the balance had just dropped to below £1,300.

*In my provisional decision I said that "As with Miss M's previous loan, I think the information 118 118 had should have prompted it to carry out further checks before lending to her again to reasonably assess whether she could meet her repayments of £100.92 without difficulty for the loan term of 12 months. I don't think 118 118 carried out a proportionate check on this occasion, but I don't have enough information to say what such a check would likely have revealed. I can't find that 118 118 got something wrong when it agreed to lend to Miss M on this occasion. I understand that Miss M repaid this loan within a couple of months."*

In response, Miss M provided her bank statements from the time and I reviewed these. Around the time of this third loan, Miss M's net monthly wage had increased to £1,911. Her outstanding debt had decreased and her monthly debt repayments came to around £350, including repayments to two loans and an estimate of sustainable repayments on revolving credit of £3,200. Her other outgoings remained the same and so, on the face of it, Miss M had at least £300 a month disposable income.

I think it's likely that a proportionate check would have reassured 118 118 that Miss M could afford her loan repayments and it would have continued with its loan offer on this occasion. I haven't found that it was irresponsible to do so, though I have noted that Miss M was already relying heavily on her overdraft and had been for at least the previous six months.

### Loans 4, 5 and 6 agreed in 2020 and 2021

Miss M took out her fourth loan with 118 118 in December 2020. This was for the same amount as before. She told 118 118 her income had increased to £2,683 a month. The credit file information 118 118 gathered showed that Miss M's borrowing had now reached £6,624. This included two loans taken out in January and July of 2020, plus her credit card and two overdrafts. Miss M's credit card limit was £1,200 and her combined overdraft limit was £2,500. Her balances on these accounts had been almost at their respective limits for over six months.

I think on this occasion, 118 118 should have seen that Miss M was reliant on credit and not managing to make inroads into her debts. I don't think it treated her fairly and with due regard to her interests by lending to her at this time because it was unlikely that she'd be able to meet her loan repayments without borrowing from elsewhere.

Miss M took out her fifth and sixth loans within a few months of repaying the previous borrowing. I can see from the credit file information that her revolving credit balances never reduced and increased to almost £3,000. As before, I think 118 118 should have seen Miss M was reliant on credit by then and declined to lend to her on both occasions.

### In summary

I've found that 118 118 wasn't irresponsible to have agreed Miss M's initial loan but it should have carried out a more in depth check when she asked for her second and third. Had it

done so, it would have declined her second loan. When Miss M asked for a fourth loan, 118 118 should have realised that she was reliant on credit and not managing to make inroads into her debts. By this stage, agreeing further credit for Miss M simply prolonged her indebtedness and 118 118 didn't treat her fairly and with due regard to her interests when it lent to her in 2020 and 2021. I think Miss M lost out by paying interest on these loans and potentially had her credit file negatively impacted.

### **Putting things right**

I've concluded that 118 118 was irresponsible to have agreed loans for Miss M in October 2018, December 2020, and May and December 2021. I think it's fair that Miss M repays the capital she borrowed as she's had the use of this but she shouldn't have to pay any interest, fees or charges associated with these four loans or have her credit file negatively impacted.

In summary, 118 118 should:

- Cap the amount Miss M needs to repay at the total capital she borrowed for these loans;
- Consider all payments Miss M made towards these loans as payments towards this capital amount;
  - If Miss M has paid more than she borrowed then any overpayments should be refunded to her, along with 8% simple interest per annum\* added to these payments from the date they were paid to the date this complaint is settled;
  - If Miss M hasn't paid more than the capital she borrowed, then 118 118 should work with her to arrange an affordable repayment plan for the remainder.
- Remove any adverse information about these loans from Miss M's credit file once settled.

If 118 118 has sold any of these loan balances to a third party debt collector, it will need to either buy back the balances or work with the third party to bring about the above steps.

\*\* HM Revenue & Customs requires 118 118 to take off tax from this interest. 118 118 must give Miss M a certificate showing how much tax it's taken off if she asks for one.

### **My final decision**

For the reasons I've explained above I am partly upholding Miss M's complaint about Madison CF UK Limited trading as 118 118 Money and it now needs to take the above steps to put things right for her.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 11 June 2024.

Michelle Boundy  
**Ombudsman**