

The complaint

Mr T complains that Madison CF UK Limited trading as 118 118 Money (“118 118”) irresponsibly agreed a loan for him.

What happened

118 118 agreed a loan of £1,500 for Mr T in June 2023. The total amount owed was £2,622.96 to be repaid at £109.29 a month over 24 months.

Mr T complained to 118 118 in February 2024 that the loan was unaffordable and had been irresponsibly agreed. He said he had two loans and several credit cards at the time, including a credit card from 118 118, all of which were at their respective limits. Mr T said that 118 118 didn’t carry out adequate checks before lending to him and it should have seen that he didn’t have enough money to meet all of his debt repayments and his living costs.

118 118 didn’t uphold Mr T’s complaint. It said that it carried out checks based on information provided by Mr T in his application and information held with credit reference agencies, and it was satisfied that it had acted correctly in approving his loan application. 118 118 didn’t uphold Mr T’s complaint and he referred it to us.

Our investigator looked into the complaint and didn’t recommend that it be upheld. They found that 118 118 completed the necessary checks prior to approving Mr T’s application and didn’t act irresponsibly or unfairly by lending to him.

Mr T asked for his complaint to be decided by an ombudsman and it came to me. I sent out a provisional decision on the 15 June 2024 explaining why I thought Mr T’s complaint should be upheld. I shared the information I’d relied on and allowed time for the parties to respond with comments or new information. Both parties acknowledged receipt of my provisional decision: Mr T accepted what I’d said and 118 118 confirmed it had nothing further to add.

In its final response letter to Mr T, 118 118 referred to a credit card account he held with it. Mr T didn’t mention this in his complaint to us about irresponsible lending, though he did say that 118 118 had blocked further spending on his card when he made a complaint about his loan.

This decision deals solely with Mr T’s irresponsible lending complaint about his loan, though I have born in mind that he had existing borrowing from 118 118 when he entered into the loan agreement.

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 and, having no new information to consider, I remain of the view that Mr T’s complaint should succeed. I’ll explain why again in this final decision.

As before, 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 them.

Before entering into a credit agreement, 118 118 needed to check that Mr T could afford to meet his repayments out of his usual means for the term of the loan while meeting his other commitments, without having to borrow further and without experiencing significant adverse financial impacts. The checks needed to be proportionate to the nature of the credit (the amount borrowed, for example) and take into consideration Mr T's particular circumstances.

118 118 needed to bear in mind that certain factors might point towards a more rigorous assessment and others towards a less rigorous one when deciding what type of creditworthiness assessment was required. Ultimately, 118 118 needed to treat Mr T fairly and take full account of his interests when making its lending decision. It would not be lending fairly if "it targeted 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."

The questions I've considered are whether or not 118 118 carried out a proportionate affordability check before lending to Mr T? If not, what would a proportionate check have shown? Did 118 118 treat Mr T fairly and with due regard to his interests when it offered him the loan?

Mr T stated that his income was £2,070 on his application form and that he was employed full-time and living in rented accommodation. 118 118 estimated that Mr T's rent was £400, that he spent £662 each month meeting his existing debt repayments and spent £545 on living costs. This left him with an estimated £463 a month spare to meet any other costs including his new loan payment.

The credit file information 118 118 relied on showed that Mr T had £14,886 of existing debt, comprising two loans (with combined balances of £10,324) and five revolving credit accounts. It also showed that Mr T owed around £850 across two accounts which had defaulted more than three years earlier.

I don't think the defaulted accounts would, or should, have caused concern for 118 118 given their age and the outstanding balance. However, I think the other information 118 118 saw on Mr T's credit file should have raised the concern that he might be struggling to repay his existing credit and so was likely to have difficulty repaying additional borrowing.

Mr T's five credit card accounts were all at their respective limits (£3,710 out of £3,800) including his 118 118 account which he'd opened about a year earlier. It seemed he'd been making the minimum payments on these for at least the previous eight months, except in the month he took out one of his two loans. Furthermore, 118 118 estimated that agreeing this new loan for Mr T with a repayment of £109 would result in him spending well over a third of his stated income each month meeting his debt repayments.

Altogether, I think this should have prompted 118 118 to carry out a more rigorous check before offering Mr T more credit, including verifying his income and expenditure, so that it could reasonably assess whether or not he had the means to meet his repayments for term of the loan without experiencing adverse financial impacts.

Mr T provided his pay slips for April, May and June 2023, a recent copy of his credit file and his bank statements from the time and I've reviewed these. To be clear, I am not suggesting that this is the information 118 118 should have looked at but it is the information I have and

I think it's reasonable to rely on it to learn about Mr T's finances at the time and what a proportionate check might have revealed.

Mr T's usual income was less than he'd said at an average of £1,820 a month, after deductions from his wages for a student loan payment and one of the two loans referred to above. His identifiable monthly outgoings included rent of £800, bills of £425 and other debt repayments of £340 – around £1,565 altogether. This would leave Mr T with less than £150 a month, after meeting his loan repayment of £109, to meet other essential living costs such as food and transport. I think 118 118 would have concluded from a more rigorous check that Mr T wasn't likely to be able to meet his repayments for the term of the loan while meeting his other commitments and without recourse to further borrowing, and would have declined to lend to him on this occasion.

Mr T told us that he was in a desperate position when he took out the loan. He said that managing on whatever was left over after paying his rent, utilities and debts each month had a serious impact on his mental and physical health as he was constantly stressed about how everything was going to get paid. I can see from the available loan account statements that Mr T met his repayments until at least March 2024. However, his credit file shows he continued to rely on credit, taking out two more credit cards in the six months following the loan. I think this was foreseeable and, altogether, I've concluded that 118 118 was irresponsible to have entered into the loan agreement with Mr T.

Putting things right

I've concluded that 118 118 was irresponsible to have agreed a loan for Mr T in June 2023. I think it's fair that he repays the capital amount he borrowed as he's had the use of the money but I don't think it's fair that he pays any interest, fees or premiums associated with the loan.

To put things right for Mr T, 118 118 should:

- Cap the amount he needs to repay at the capital amount he borrowed, this being £1,500;
- Consider all payments he's made as payments towards this capital amount; and
 - If Mr T has now repaid more than the capital he borrowed then 118 118 should refund these overpayments to him along with 8% simple interest per annum**; or
 - If he hasn't yet repaid the capital then 118 118 needs to treat Mr T fairly and with forbearance if he is experiencing financial difficulty which may mean agreeing an affordable repayment plan with him.
- Remove any adverse information about this loan from Mr T's credit file once settled.

** HM Revenue & Customs requires 118 118 to take off tax from this interest. 118 118 must give Mr T a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons I've set out above I'm upholding Mr T's complaint about Madison CF UK Limited trading as 118 118 Money and it now needs to put things right for him as I've outlined.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 16 July 2024.

Michelle Boundy
Ombudsman