

## The complaint

Mr H is complaining that Madison CF UK Limited trading as 118 118 Money (118) lent to him irresponsibly by providing him with two personal loans. Mr H's complaint has been brought to us by a representative but for ease I've written as if we've dealt directly with him.

## What happened

In July 2019, 118 approved Mr H's application for a £2,000 loan. The loan required Mr H to make 24 monthly repayments of around £120. Mr H made his payments on time until January 2020 when he applied for, and received, another loan with 118. This second loan was for £2,677 - £1,677 to settle the first loan and an additional £1,000. This time Mr H needed to make 24 monthly payments of around £161. He settled this loan early, in February 2021.

In February 2024 Mr H complained to 118, saying they hadn't done enough checks before lending to him. He said he'd had three accounts with debt recovery companies at the time of his first application and a further account was passed to debt collection companies before his second application. He noted he'd also taken out an additional credit agreement between the two application dates and said this demonstrated his reliance on credit.

118 responded, saying they'd carried out appropriate checks before lending to Mr H. They said they'd used industry standard verification checks and reasonable average figures when assessing income and expenditure. And they said they use a customer's credit file to calculate their existing credit commitments and take this into account. They said they were comfortable with their decision to lend to Mr H and so didn't uphold his complaint.

Mr H wasn't happy with 118's response so brought his complaint to our service and one of our investigators looked into it. He proposed to uphold the complaint, saying 118 hadn't done proportionate checks and if they had they'd have seen Mr H's existing expenditure broadly matched his income so he couldn't afford to sustainably repay an additional debt.

118 disagreed. They said they'd done enough checks, taking into account the information available on Mr H's credit file. They said their internal scorecard hadn't prompted them to request additional documents or carry out a further review of Mr H's circumstances. They asked for a decision – and the matter came to me.

I issued a provisional decision on the complaint on 5 June 2024 saying I wasn't inclined to uphold the matter. In that I said:

### *"What's required of lenders?"*

*The Financial Conduct Authority (FCA) sets out in a part of its handbook known as CONC what lenders must do when deciding whether or not to lend to a consumer, or when increasing the amount they lend to a consumer. In summary, a firm must consider a customer's ability to make repayments under the agreement without having to borrow*

*further to meet repayments or default on other obligations, and without the repayments having a significant adverse impact on the customer's financial situation.*

*CONC says a firm must carry out checks which are proportionate to the individual circumstances of each case.*

*Did 118 carry out proportionate checks?*

*What's proportionate depends on the individual circumstances of the loan and the applicant. CONC suggests a firm should generally verify a customer's income and should usually take steps to estimate their expenditure. CONC adds that a firm can use statistical data to estimate expenditure as long as they haven't got reasonable cause to suspect that the customer's expenditure is significantly higher than that described in the data.*

*118's first loan was for £2,000, over a two-year period. The APR was nearly 45% so the cost of credit was high. And, looking at Mr H's credit file, I can see he had a credit card over its limit and a recent missed payment on a hire purchase agreement – a debt I'd expect him to have prioritised. I can't see that 118 verified Mr H's income. And I think the missed payment and overlimit information on Mr H's credit file are indicators that he might have been in some financial difficulties. 118 says these aren't indicators that would have stopped them lending to Mr H. And I'm not saying they shouldn't have lent – but I do think these factors should have led 118 to do more checks.*

*118 effectively extended their loan to Mr H to £2,667 in January 2020. Mr H had made all of his repayments to 118 on time. But his credit file showed he now had three accounts which were over their credit limits. So again, I think 118 should have done more to verify Mr H's income and understand his expenditure before deciding to lend to him.*

*If 118 had done proportionate checks, what would they have found?*

*I've looked at statements for Mr H's main bank account for the three months leading up to each of his applications to 118. I'm not saying 118 needed to obtain bank statements as part of their lending checks. But in the absence of other information, bank statements provide a good indication of Mr H's income and expenditure at the time the lending decision was made. CONC requires a business to make reasonable estimates of a consumer's non-discretionary expenditure – they don't have to consider all spending. So I've thought about what 118 ought to have found out about Mr H's committed and non-discretionary spending, as well as using the bank statements to check Mr H's income.*

*On both applications Mr H told 118 his income was £1,907 per month. His bank statements support this so I think 118 could have verified this amount on both occasions.*

*Looking at Mr H's credit file, I think 118 should have estimated his necessary monthly repayments to other creditors as around £540 in July 2019 and around £560 in January 2020. These figures are a little higher than those used by 118. I've assumed a repayment of 5% of the balance on all revolving credit as I'd consider this a minimum percentage which would allow Mr H to repay the balances within a reasonable timeframe, as required by CONC.*

*In July 2019, Mr H had also been paying £114 per month to a lender which didn't appear on his credit file. I think it's likely if 118 had asked Mr H about his spending he'd have disclosed this.*

*Turning to Mr H's other expenditure, I couldn't see any evidence from his bank statements that he was paying rent or for any utilities. When I asked Mr H about this he said he withdrew cash in lump sums to contribute towards rent and food but wasn't clear about the amounts. I've added up all the cash withdrawals on his bank statements and in the three months leading up to his first application, these averaged around £200 per month. In the three months leading up to Mr H's second application they averaged around £500 per month. It might be that some of the cash was being used for discretionary expenditure but in the absence of other information I've assumed these are the figures he would have given 118 if they'd asked.*

*At the time of both applications Mr H was spending around £400 per month on TV, internet, and mobile phones. He had monthly costs of around £120 in relation to a vehicle and its insurance. And he had other committed costs of around £80 per month. So in total his committed expenditure excluding creditor repayments was around £600.*

*Adding these figures up, I'm inclined to say that if 118 had done proportionate checks they'd have come to the conclusion that Mr H had monthly disposable income of around £450 in July 2019 and around £247 in January 2020. The repayments of £120 and £161 respectively would therefore have appeared to be affordable and 118 could have fairly decided to lend to Mr H. So although I'm inclined to say 118's checks weren't proportionate, I'm not minded to uphold the complaint – I think 118 could still have lent to Mr H if they had done proportionate checks.”*

118 had no comments on my provisional decision. But Mr H disagreed with my assessment of his income and expenditure. He said his calculations showed neither agreement was affordable.

### **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 done so, and acknowledging it'll be disappointing for Mr H, I've decided not to uphold his complaint. I'll explain why.

I've looked at Mr H's calculations to understand the differences between his and my assessments of his non-discretionary expenditure. The main differences are that he's included in his calculations his spending on gambling, payments of £100 a month to an individual, and payments to creditors such as catalogue shopping accounts and credit card lenders.

I haven't seen any evidence to suggest that Mr H's gambling was compulsive, so I'm satisfied it's not appropriate to include these amounts in an assessment of non-discretionary expenditure. Mr H hasn't provided any explanation of the payments to the individual, but they don't appear in his bank statements by the time of the second lending decision, so it appears this wasn't a long-term commitment. On that basis I'm satisfied 118 wouldn't have needed to include these in an assessment of non-discretionary expenditure.

In respect of the payments to creditors, it's not reasonable to suggest 118 should have taken into account everything Mr H was paying to creditors as this could have included significant amounts of discretionary spending. Instead, as I explained in my provisional decision, they should have estimated how much Mr H would need to pay each month to settle the balances outstanding at the time of his application within a reasonable timeframe.

When I adjust Mr H's calculations to replace the payments to creditors with the amounts I set out in my provisional decision and remove the spending on gambling and payments to individuals he is left with positive disposable income. So Mr H's comments on my provisional decision haven't changed my mind.

### **My final decision**

As I've explained above I'm not upholding Mr H's complaint about Madison CF UK Limited trading as 118 118 Money.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 24 July 2024.

Clare King  
**Ombudsman**