

The complaint

Mr R complains that Madison CF UK Limited trading as 118118 Money irresponsibly lent to him.

What happened

Mr R was approved for a 118 118 Money personal loan in January 2022 for £2,000 over 24 months. He was approved for another personal loan of £3,426.87 over 60 months in January 2023 (which part of this money settled the previous loan). He says that 118 118 Money irresponsibly lent to him by approving these loans. Mr R made a complaint to 118 118 Money.

118 118 Money said they examined various factors, including Mr R's credit file and disposable income before and after loan repayments and they stood by their decision not to uphold Mr R's complaint. Mr R brought his complaint to our service.

Our investigator did not uphold Mr R's complaint. She said 118 118 Money completed proportionate affordability checks given the loan amounts and the information which Mr R provided. These checks gave a reasonably detailed picture of his financial situation including his existing credit commitments. Mr R asked for an ombudsman to review his complaint.

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.

Before agreeing to approve the credit for Mr R, 118 118 Money needed to make proportionate checks to determine whether the lending was affordable and sustainable for him. There's no prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include - but are not limited to: the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances.

January 2022 personal loan - £2,000

I've looked at what checks 118 118 Money said they did when initially approving Mr R's application. 118 118 Money said they looked at his credit file and disposable income before and after loan repayments.

I've looked at what 118 118 Money's checks showed. Mr R told them he was employed, earning £2,177 net per month, which 118 118 Money calculated to be around £33,032 gross annual salary. The information from the credit reference agencies (CRA's) showed that Mr R had defaulted on one account previously, and this was in the 36 months prior to his application, but it was not within 12 months of his application.

It may help to explain here that, while information like defaults on someone's credit file may often mean they're not granted further credit – they don't automatically mean that a lender won't offer borrowing.

The checks showed that Mr R had total unsecured debt of £20,179, with £17,097 of the figure being for loans, and £2,393 of it for revolving credit (such as credit cards). While the level of debt seems high compared with Mr R's salary, I note that the checks showed that £16,053 of the loans were for a single hire purchase agreement Mr R had. So in this context, I'm not persuaded this should have made 118 118 Money make further checks.

But that's not all the information from the CRA's showed. They showed that Mr R was two months in arrears on his gas payments. So I do think that 118 118 Money should have made further checks to ensure the loan was affordable and sustainable for Mr R. I say this because if he wasn't up to date on a priority payment such as his gas bill, then it could indicate the disposable income which 118 118 Money calculated for him may not be accurate.

So I'm persuaded that 118 118 Money should have made further proportionate checks. For example, they could have contacted Mr R to ask him why he was behind on his gas payments, or they could have, as part of a proportionate check, asked Mr R to provide his bank statements to get an idea of his financial circumstances prior to the loan being approved to ensure the repayments would be affordable and sustainable for him.

So I asked Mr R if he could provide me with his bank statements for the three months leading up to his loan being approved, as I'm persuaded this was an option available to 118 118 Money as part of a proportionate check based on the information from the CRA's. Mr R provided his bank statements from 1 November 2021-31 January 2022. But I need to keep in mind that the loan was approved on 14 January 2022, so 118 118 Money would not know how Mr R managed his money after this date.

In addition to this, due to the dates his statements are produced, the January 2022 statement wouldn't have been produced prior to the personal loan application. But I'm also mindful that it may have been possible for Mr R to send them his online transactions, if 118 118 Money would have asked for this as part of a proportionate check.

Mr R's bank statements show he manages his bank account well. His salary is often higher than what he declared on his application. There was one occasion where Mr R's statements showed he was overdrawn by 94p on 9 December 2021, but this could just be a statement error, as also on 9 December 2021, after this direct debit left his account, his salary of £1,029.41 credited his account.

Mr R's bank statement shows his balance often in three figures. It occasionally goes down to two figures, but at times it also goes up to four figures. So if 118 118 Money asked for Mr R's bank statements as part of a proportionate check based on the information they received from the CRA's, I'm persuaded they would have seen how well Mr R's bank account was being ran, and I'm persuaded they still would have approved the personal loan for Mr R. So based on everything I've seen overall, I'm persuaded they made a fair lending decision here.

January 2023 personal loan - £3,426.87

I've looked at what checks 118 118 Money said they did when they approved the January 2023 loan for Mr R. I can see that part of this loan settled the personal loan that Mr R was approved for in the previous year. This would also mean the monthly repayment for the previous loan would stop also. Mr R told 118 118 Money he was still earning £2,177 a month.

I'm persuaded that the account opening checks were proportionate. I say this as the information showed that Mr R's unsecured borrowings had actually fallen in the year that he took out his first 118 118 Money loan and when he was approved for the January 2023 loan. There was a total of £17,519 in unsecured debt, with £14,121 showing as loans, and £3,064 in revolving debt (eg credit cards). Mr R was not using a substantial amount of his credit limits (the checks show he used 52% of his credit limits), therefore it doesn't appear Mr R was hungry for credit or using all of the available credit he had.

There were no defaults showing from the information from the CRA's in the previous three years. The entry on his credit file regarding his gas payments was settled, and there were no arrears showing at the time of the loan application for his gas, unlike when he applied for the previous 118 118 Money loan.

So I'm satisfied that the checks 118 118 Money carried out here, prior to approving the January 2023 loan were proportionate and that 118 118 Money made a fair lending decision to approve Mr R's application.

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think 118 118 Money lent irresponsibly to Mr R or otherwise treated him unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here. So it follows I don't require 118 118 Money to do anything further.

My final decision

I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 9 September 2024.

Gregory Sloanes
Ombudsman