

The complaint

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

What happened

Mr W took out two loans from 118 118 Money. The first was for £1,000 over 12 months in April 2022. The monthly repayments were £112.24 and the total repayable was £1,346.88. The second was for £1,850 over 36 months in May 2023. The monthly repayments were £95.82 and the total repayable was £3,449.52.

Mr W says the loans were given to him without adequate due diligence. No comprehensive income verification or affordability assessments were conducted. This has meant he is now having substantial difficulties in meeting the financial commitments associated with having these loans. This deviation from responsible lending practices not only places an undue financial strain on him, but also raises critical concerns regarding the lender's compliance with industry regulations and guidelines.

118 118 Money says it carried out proportionate checks that showed the loans would be affordable for Mr W.

Our investigator did not uphold Mr W's complaint. She found the checks 118 118 Money carried out were proportionate and that the lending decisions were fair based on the information it gathered.

Mr W disagreed and asked for an ombudsman's review. He said 118 118 Money did not take into account his overall financial situation, specifically, his reliance on credit; the fact he was self-employed and had a dependant; and his poor credit score. As a result it became hard for him to repay the loans over time. It was not adequate for the lender to rely on automated tools and generalised expenditure models in the circumstances of his applications.

I planned to uphold Mr W's complaint in part so I issued a provisional decision. An extract follows and forms part of this final decision. I asked for any further comments or new evidence by 24 January 2025.

Extract from my provisional decision

118 118 Money has provided evidence to show that before lending it asked for some information from Mr W on each occasion. It asked for his monthly income and his housing cost. It verified his declared income using external data over a three and 12-month time period. It estimated his living costs using national statistics. It carried out credit checks to understand Mr W's credit history and his existing credit commitments. Based on these checks 118 118 Money thought it was fair to lend.

I think these checks were proportionate for both loans given their value and the amount of the monthly repayments relative to Mr W's income. Mr W believes automated checks and models using averages were not appropriate in his circumstances but I disagree. The loans

were for low values and in this context I think the approach the lender took was proportionate. Its checks considered his personal circumstances and employment status.

However, whilst I think 118 118 Money made a fair lending decision for loan 1, I do not think this was the case for loan 2. I'll explain why.

Loan 1

Mr W declared he was self-employed with a net monthly income of £3,419. 118 118 Money was able to verify this through one of the credit reference agencies that looks at current account turnover over both the last three and 12 months. He declared his housing costs were £400 and using national statistics 118 118 Money estimated his living costs were £796.63. The credit check showed Mr W had monthly credit commitments of £796. Based on the results of these checks combined the loan seemed affordable as Mr W had disposable income each month of £1,426.37.

But 118 118 Money had to do more than just check the pounds and pence affordability. It needed to check that Mr W could repay the loan sustainably – so without borrowing to repay, or suffering some other adverse financial consequence. The credit check showed Mr W had £32,331 of loans and £1,931 of revolving credit. The majority of this debt was on a hire purchase agreement and all Mr W's accounts were up-to-date. He had no significant adverse data such as CCJs or defaults on his file. So there were no signs of financial strain present. Taking on this loan meant Mr W needed to spend just over 25% of his income on his credit commitments which I don't think ought to have concerned 118 118 Money given the results of all its checks.

It follows I don't think 118 118 Money was wrong to lend to Mr W at this stage.

Loan 2

Mr W returned to take out loan 2 the month after repaying loan 1. He declared the same income and housing costs. 118 118 Money's checks estimated his living costs to be £820.56 and the credit checks showed his monthly spend on credit would be £1,119. I think this was slightly understated, most likely because this service allocates 5% of total revolving balances in its affordability assessments to ensure such debt is repaid sustainably. So taking on this loan meant Mr W would be spending around 37% of his income on credit each month. I think at this level 118 118 Money ought to have been concerned the repayments might not be sustainable over the 36-month term.

There were already indications that Mr W's finances might be under pressure. He had ten more active accounts than at the time of loan 1. He had started to use credit to access cash and regularly made only the minimum repayment on his revolving debt. He had used most of the available credit on the two credit cards he had opened recently (October 2022 and January 2023) in the first few months. And it seems he had taken out high-cost short term credit in January 2023.

So in the round, I don't think 118 118 Money had the assurances it needed that giving loan 2 to Mr W would not go on to cause him financial harm.

It follows I think 118 118 Money was wrong to give loan 2 to Mr W.

I haven't found any evidence that 118 118 Money treated Mr W unfairly in some other way. I've considered whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results

in fair compensation for Mr W in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

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

Mr W did not respond to the provisional decision. 118 118 Money said it had no further comments to make.

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.

As neither party sent in any new information or comments for me to consider I have no reason to change the findings or outcome set out above.

It follows for the reason set out above I find 118 118 Money was wrong to give loan 2 to Mr W.

Putting things right

Loan 2

It's reasonable for Mr W to have repaid the capital amount that he borrowed as he had the benefit of that money. But he has paid interest and charges on a loan that shouldn't have been given to him. So he has lost out and 118 118 Money needs to put things right.

So 118 118 Money should:

- Remove all interest, fees and charges on loan 2 and treat all the payments Mr W made as payments towards the capital.
- If reworking Mr W's loan account will result in him having effectively made payments above the original capital borrowed, then 118 118 Money should refund this to Mr W - 8% simple interest should be applied to the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- If reworking Mr W's loan account will result in there being an outstanding capital balance the parties should agree an affordable payment plan. I would remind 118 118 Money of its obligation to treat Mr W fairly and, if appropriate, with forbearance.
- Remove any adverse information recorded on Mr W's credit file in relation to the loan once any capital outstanding is repaid.

*HM Revenue & Customs requires 118 118 Money to deduct tax from this interest. 118 118 Money should give Mr W 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 W's complaint in part in relation to loan 2. 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 W to accept or reject my decision before 24 February 2025.

Rebecca Connelley
Ombudsman