

Complaint

Mr H complains that Madison CF UK Limited trading as 118 118 Money acted irresponsibly by lending him money in March 2018.

Background

The background to this complaint and my provisional findings are set out in my provisional decision dated 26 February 2020 – a copy of which is attached and forms part of my final decision.

In my provisional decision I explained why I thought 118 118 Money was irresponsible when it approved Mr H's loan.

I asked everyone to send me any further comments and information before I reached a final decision.

Both Mr H and 118 118 Money accepted my provisional findings.

My findings

I've re-considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

As both parties have accepted my provisional decision and I haven't received any new evidence, I've reached the same conclusions I reached in my provisional decision for the same reasons.

My final decision

For the reasons explained above and in my provisional decision, I uphold Mr H's complaint.

To put things right, Madison CF UK Limited trading as 118 118 Money should:

- a) remove all interest, fees and charges from the outstanding balance on the loan, and treat any repayments made by Mr H as though they had been repayments of the principal.

Madison CF UK Limited trading as 118 118 Money has told us that Mr H has paid more than the capital amount of the loan. So it should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled.

- b) remove any adverse information recorded on Mr H's credit file in relation to the loan once the loan is settled

*HM Revenue & Customs requires Madison CF UK Limited trading as 118 118 Money to deduct tax from this interest. It should give Mr H a certificate showing how much tax it has deducted, if Mr H asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 13 April 2020.

Margaux Stride-Noble
Ombudsman

Copy of provisional decision

Complaint

Mr H complains that Madison CF UK Limited trading as 118 118 Money acted irresponsibly by lending him money in March 2018.

Background

In March 2018, Mr H applied for a loan. 118 118 Money lent him £3,000 to be repaid over 12 months at £354 a month. The total amount repayable over the full term of the loan was £4,248.

Mr H thinks 118 118 Money shouldn't have lent him the money.

Our adjudicator looked at the complaint, and thought Mr H's complaint about the loan he took out in March 2018 should be upheld. She didn't think 118 118 Money had carried out sufficient checks before deciding to lend Mr H the money. And she thought that had 118 118 Money done more, it would have realised the loan repayments weren't sustainable. So, she recommended that 118 118 Money refund Mr H any charges and interest he paid on the capital sum he borrowed. She also recommended 118 118 Money remove any negative information about the loan from Mr H's credit file.

118 118 Money didn't agree with our adjudicator's assessment of Mr H's complaint. So, the complaint has passed to me to decide.

My provisional findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I'm currently minded to uphold Mr H's complaint. I'll explain why.

When bringing his complaint to our service, Mr H explained that he was unable to afford the loan repayments alongside his other credit commitments, which included a large overdraft, credit cards and a number of short-term loans. He also explained to us that he had a gambling addiction.

As 118 118 Money was entering a regulated credit agreement, it needed to assess Mr H's creditworthiness. This included the potential for the commitments under the agreement to adversely impact Mr H's financial situation, and the ability for Mr H to make repayments as they fell due over the term of the loan.

In particular, the regulator's rules that applied to 118 118 Money at the time said it needed to make reasonable and proportionate checks when assessing Mr H's ability to meet the monthly repayments in a sustainable manner without Mr H incurring financial difficulties or experiencing significant adverse consequences. This included Mr H being able to make the payments on time while meeting his other reasonable commitments and without having to borrow to meet the monthly loan repayments.

The checks 118 118 Money did had to be proportionate to the specific circumstances of the loan. And what is proportionate will depend on a number of factors including things like the consumers' financial history, their financial situation at the time of the loan application, along with other factors such as the amount borrowed, type of loan and the cost of the credit being sought.

In light of this, I think that reasonable and proportionate checks should generally be more thorough in situations where:

- the lower a customers' income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the longer the term of the loan (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make payments for an extended period).

I've carefully considered what reasonable and proportionate checks should have looked like when 118 118 Money was in the process of approving the loan for Mr H. And I've thought carefully about what checks 118 118 Money says it did and whether those were proportionate in the circumstances.

Having considered the available information, I'm not satisfied the checks carried out by 118 118 Money were reasonable and proportionate when assessing Mr H's ability to repay the loan in a sustainable manner. I'll explain why.

118 118 Money believes the affordability checks it carried out when Mr H applied for the loan were sufficient. In support of what it's said, 118 118 Money has provided us with some information about the checks it carried out when Mr H applied for the loan. This included internal system notes, which sets out the information Mr H declared during the loan application process. It's also sent us a copy of Mr H's credit report which it used when deciding to loan Mr H the money.

Based on the information provided, I can see Mr H declared a monthly income of £1,350 and monthly expenses of £309. This suggests Mr H had around £1,041 as disposable income each month. The loan repayments would have accounted for over a third of Mr H's perceived disposable income, before he was able to meet his normal outgoings and existing credit commitments.

Mr H's credit report, however, shows Mr H had and was relying on a large overdraft facility which he'd exceeded in June and October 2017. It also shows he'd taken out some short-term loans in the months prior to this loan application. The report also shows that Mr H owed around £1,703 to his creditors and his balance to credit limit ratio was 99%. This suggests that Mr H was relying on credit to meet his monthly expenses, despite his declared monthly expenses of £309 a month.

So, I've gone on to consider what other information was available to help establish a clear picture of Mr H's financial situation around the time of the loan.

Mr H has provided us with copies of his bank statements for the period of January to March 2018. As the loan application took place on 6 March 2018, I've had a look at his statements for the months of January, February and the first week of March. These statements show Mr H had a total of 8 separate transactions relating to short-terms loans, 4 of which were credits to his account. I can also see that Mr H had a credit card, which he was making small regular payments towards.

In addition to this, the bank statements show significant amounts of gambling transactions. During the period 1 January to 6 March 2016, Mr H had spent close to £2,200 on online gambling websites.

The statements also show he was heavily reliant on his large overdraft facility. At the point at which Mr H applied for this loan, his account was overdrawn by around £1,900, despite being paid his salary one week earlier. His bank statements also show that he was incurring overdraft fees of around £90 a month.

Based on what I've seen, I'm satisfied that Mr H's bank statements show that he was relying on additional lending and credit facilities to help meet his financial obligations. I think 118 118 Money ought to have known that their assessment of Mr H's financial situation wasn't a true reflection of his actual financial situation and spending habits, and that the loan repayments weren't sustainable in the circumstances.

So I've gone on to consider what would have happened had 118 118 Money carried out further checks. In the circumstances of this complaint, I think that had 118 118 Money carried out further affordability checks using the available information, I think it's unlikely that it would have thought the lending to Mr H was sustainable.

Taking everything I've said into account, I think the information I've seen gives a strong impression that Mr H was struggling to fund his spending habits and day-to-day expenses – despite his monthly salary.

Based on what I've seen of Mr H's actual financial situation, I think it's more likely than not that he would have had to borrow again during the lifetime of this loan in order to meet his monthly repayments.

For these reasons, I don't think Mr H was going to be able to repay this loan in a sustainable manner. I think that if 118 118 Money had made proportionate checks it would have realised this. And I think Mr H has lost out because of what 118 118 Money did wrong.

Putting things right

Madison CF UK Limited trading as 118 118 Money shouldn't have given Mr H the loan.

I understand that there may still be an outstanding balance on Mr H's loan account. If that is correct then this is what I propose 118 118 Money should do to put things right:

- c) remove all interest, fees and charges from the outstanding balance on the loan, and treat any repayments made by Mr H as though they had been repayments of the principal.

If this results in Mr H having made overpayments then Madison CF UK Limited trading as 118 118 Money should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled.

- d) remove any adverse information recorded on Mr H's credit file in relation to the loan once the loan is settled

*HM Revenue & Customs requires Madison CF UK Limited trading as 118 118 Money to deduct tax from this interest. It should give Mr H a certificate showing how much tax it has deducted, if Mr H asks for one.

Madison CF UK Limited trading as 118 118 Money should provide me with an up-to-date statement of account in response to this provisional decision.

My provisional decision

I currently intend to uphold Mr H's complaint. And I currently intend to require Madison CF UK Limited trading as 118 118 Money to put things right as outlined above.

Margaux Stride-Noble
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