

complaint

Mr B complains that Madison CF UK Limited trading as 118118 Money (“MCF”) lent to him in an irresponsible manner.

background

Mr B was given three loans by MCF. The first two loans were taken in 2016, with the final loan being agreed in 2018. There was a significant gap between the repayment of loan 2 and loan 3 being agreed. So I think it would be right to treat Mr B’s borrowing history as being in two distinct parts. Mr B has told us that he doesn’t wish to complain about the final loan he took – I understand that loan has formed part of an IVA that Mr B entered into. So I won’t consider that loan any further. The loans I am therefore considering as part of this complaint are as follows;

Loan Number	Borrowing Date	Repayment Date	Loan Amount	Term (Months)
1	07/02/2016	13/05/2016	£ 1,200	24
2	06/08/2016	12/08/2017	£ 1,500	24

Mr B’s complaint has been assessed by one of our adjudicators. She didn’t think that the checks MCF had done before lending to Mr B had been sufficient. And she thought that better checks would have shown that Mr B couldn’t afford to sustainably repay the lending. So she asked MCF to pay Mr B some compensation.

MCF didn’t accept that assessment. So, as the complaint hasn’t been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process. If Mr B accepts my decision it is legally binding on both parties.

my findings

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 approach to unaffordable/irresponsible lending complaints on our website and I’ve kept this in mind while deciding Mr B’s complaint.

The rules and regulations at the time MCF gave these loans to Mr B required it to carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This assessment is sometimes referred to as an “affordability assessment” or “affordability check”.

The checks had to be “borrower” focused – so MCF had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Mr B. In practice this meant that MCF had to ensure that making the repayments wouldn’t cause Mr B undue difficulty or adverse consequences. In other words, it wasn’t enough for MCF to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Mr B.

Checks also had to be “proportionate” to the specific circumstances of the loan application. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);
- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);
- the *longer* the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether MCF did what it needed to before agreeing to lend to Mr B.

MCF gathered some information from Mr B before it agreed the loans. It asked him for details of his income, and his normal expenditure. And it checked his credit file to assess how much he was repaying to other creditors.

Mr B was entering into a significant commitment with MCF. He would need to make monthly repayments for a period of two years. The credit check that MCF did before the first loan suggested that Mr B might be having some problems managing his money. He'd opened, and closed, a large number of accounts over the past months. And at times he'd been late making some of his repayments. So I would expect that MCF would want to gather, and independently check, some further detailed information about Mr B's financial circumstances before it agreed to lend to him. I don't think that the checks it did were enough. I think it would have been proportionate for MCF to additionally independently check the true state of Mr B's finances before agreeing the loan.

But although I don't think the checks MCF did before agreeing the first loan were sufficient, that in itself doesn't mean that Mr B's complaint should succeed. I'd also need to be persuaded that what I consider to be proportionate checks would have shown MCF that Mr B couldn't sustainably afford the repayments. So I've looked at Mr B's bank statements, and what he's told us about his financial situation, to see what better checks would have shown MCF.

At this stage I want to be clear that I am not suggesting that this is the exact check that MCF should have carried out. I do think MCF needed evidence to corroborate what Mr B said was happening with his finances. And looking at his bank statements is one way of achieving that although there are of course many other ways that level of detail could be established. But I think that by looking at Mr B's bank statements I can get a good idea of what better checks might have shown.

Mr B's bank statements showed that he was heavily overdrawn. And in the month before he took the loan his overdraft increased. Mr B was spending heavily on what appear to be online gambling transactions. In the month before he asked MCF for the loan he spent an amount equivalent to half his normal income on transactions of this nature. And he was funding that gambling expenditure by taking multiple loans from another short-term lender. Had MCF seen that information, as it would have done if it had completed what I consider to be proportionate checks, then I think it would reasonably have declined Mr B's application.

There was little gap between loans 1 and 2. So I think the concerns that were present when Mr B applied for loan 1 applied equally at the time of his application for loan 2. And by then the credit check that MCF did showed a further worsening of Mr B's financial situation. In the six months between the loans Mr B had opened, and closed, a further 13 new accounts. His outstanding credit balances had increased and he was now at, or close to, the limit on his revolving credit accounts. So given this worsening in Mr B's financial situation I don't think it was reasonable for MCF to give this loan 2 to him either.

In summary, I don't think the checks that MCF did before agreeing the loans were sufficient. I think better checks would have shown that it was unlikely that Mr B would be able to repay the borrowing in a sustainable manner. So I don't think MCF should have given either loan to Mr B and needs to pay him some compensation.

putting things right

I don't think MCF should have lent to Mr B in either February or August 2016. So for each of those loans MCF should;

- refund all the interest and charges Mr B paid on the loans
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†
- remove any adverse information recorded on Mr B's credit file in relation to the loans

† HM Revenue & Customs requires MCF to take off tax from this interest. MCF must give Mr B a certificate showing how much tax it's taken off if he asks for one.

As I noted earlier Mr B has entered into an IVA. It might be that the terms of that IVA give Mr B's practitioner an interest in the compensation I have directed MCF to pay. It will be up to Mr B to make his IVA practitioner aware of this compensation if appropriate.

my final decision

My final decision is that I uphold Mr B's complaint and direct Madison CF UK Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 21 February 2021.

Paul Reilly
ombudsman