

complaint

Miss S complains that Madison CF UK Limited, trading as 118 118 Money, lent to her irresponsibly and without carrying out proper affordability checks. She would like all the fees and charges associated with the loan refunded.

background

In July 2018 118 118 Money approved a loan of £2,000 for Miss S, which was scheduled to be repaid at approximately £159 per month over a term of 24 months. The loan was intended to consolidate some of Miss S's other borrowing. When assessing the application, 118 118 Money asked Miss S about her financial circumstances and carried out a credit check before approving the lending.

Unfortunately, it seems that Miss S ran into some financial difficulties in November 2018 and may at that time have entered a repayment plan which reduced her monthly repayments to £125 initially. However, that plan seems to have failed, with the balance of the loan of £2,948.46 being assigned to a third party debt collector in April 2019. Miss S has provided evidence to show that she has made sufficient repayments to now reduce the outstanding balance to £354.

The adjudicator looked at the evidence and concluded that 118 118 Money should not have granted this loan, as it should have been clear that repaying it couldn't have been sustainable for Miss S. 118 118 Money did not accept that, and asked an Ombudsman to review the case.

my findings

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, I'm upholding it, and I'll explain why.

118 118 Money is aware of its obligations under the rules and regulations in place at the time of this lending decision, including the Consumer Credit Sourcebook ("CONC"), so I won't repeat them here. But, briefly, it was required to carry out sufficient checks to ensure that Miss S would be able to repay the borrowing applied for in a sustainable way. As set out in CONC 5.3.1G(2) that means that she could manage the repayments,

"...without...incurring financial difficulties or experiencing significant adverse consequences"

Essentially, Miss S needed to be able to meet her financial commitments and not have to borrow elsewhere to repay 118 118 Money for the loan to be considered affordable and sustainable.

Did 118 118 Money carry out proportionate checks before granting this loan?

118 118 Money asked Miss S some questions about her income and expenditure and carried out a credit check when considering her loan application. The length of the loan and, as I'll go on to explain, the information 118 118 Money found from its checks should have concerned it. It would have been reasonable for it to carry out additional checks to get a

clearer picture of Miss S financial circumstances, but, even without taking the checks further, I think it saw enough from the results of the credit check to have reasonably concluded that Miss S was unlikely to sustainably repay the loan.

Miss S declared a monthly income of £2,250 and expenditure of just over £1,000. Those outgoings were broken down into various categories, including housing costs, council tax, insurance, food, and amounts needed to service other debts. She estimated monthly outgoings of £600 to service existing debts. So, based on what Miss S told it about her financial situation, 118 118 Money could have concluded that she had a disposable income of over £1,000, which would have been enough to service an additional monthly repayment of around £159.

But the results of the credit check it completed showed 118 118 Money a different picture, and one to which I don't think it reacted as it should have. Crucially, it suggested that she had a far bigger debt burden, with monthly repayments in the region of £1,400, made up of seven credit card balances (almost all maxed out), and nine unsecured loans – more than twice what she had declared in her application. It was also clear that she was consistently overdrawn on her current account by more than her monthly income. Whilst she was remaining within the approved limit, I think the reality was that she was having to borrow from a wide range of sources for day to day living. She was in a cycle of debt, with no evidence of living on *any* funds that weren't borrowed.

By definition, the lending under consideration here therefore cannot possibly be described under the regulations as “*sustainable*” – as Miss S would clearly have to borrow in order to make repayments. Whilst what happened subsequently doesn't form part of my rationale for upholding this case, the fact that Miss S had problems making repayments within a short time of the loan being approved does bear out its unsustainability. Similarly, the fact that the loan was sold on less than a year later also supports that conclusion, which 118 118 Money should have reached based on the information it had available to it in July 2018.

Although it hasn't been explored so far in this case, and I am not relying on it to reach my conclusion, there is a further debt showing on the credit check that raises concern. Described as a “revolving credit” facility, the credit check showed that Miss S seemingly had an approaching repayment of £1,126, due within the coming payment cycle. This would have meant that she needed over £2,500 to service her debts in the immediate term which was under consideration by 118 118 Money – significantly more than her income. However, I have also considered the possibility that, as a revolving credit facility, not the full balance may have *actually* been contractually due in the coming payment. And so the information as presented on the credit check might not present a fully accurate picture. However, if the full balance weren't due in the following cycle, then 118 118 Money would have needed to establish exactly what *was* due, which it didn't. Given that Miss S already needed around £1,400 to make repayments, *excluding this revolving credit facility*, and at least a modest estimate of £415 to pay bills and eat, the evidence to suggest she had enough disposable income to take on this additional repayment is weak at best.

118 118 Money says that its review into Miss S's complaint (that is, a retrospective look at what Miss S did after the loan had been granted) showed that she settled some of her outstanding debt, as expected, using the money it advanced. I accept that debt consolidation was the purpose of the loan, and that would have had an impact on the assessment of expenditure going forward. However, I've seen no evidence of 118 118

Money making such adjustments and taking that into account *when assessing the affordability of this borrowing for Miss S in 2018*. Even retrospectively, 118 118 Money has only been able to pinpoint two fairly minor debts being settled after this loan was granted, which it says increased Miss S's disposable monthly income by £92, through the settling of two balances totalling £713 – around a third of the sum it decided to lend to her. So I can place little weight on this submission.

Of course, Miss S was committing to making repayments to 118 118 Money for 24 months, whereas the terms of the loans 118 118 Money says she consolidated is unknown. The potential benefit of Miss S increasing her monthly disposable income may only have been shortlived, it isn't now possible to say with any certainty. In the round, I am clear that the net positive effect of this lending, as outlined by 118 118 Money, has not been shown to either be significant or sustained enough to lead to a conclusion that it made the lending sustainable.

So, I think 118 118 Money had enough information on the credit check it conducted to see that Miss S's financial position was precarious and that she was extensively borrowing. It therefore follows that she would have had to borrow money in order to repay 118 118 Money, meaning that this lending was unsustainable under the regulations in force, and should not have been granted.

Putting things right

Both parties have confirmed that the debt was assigned to a third party in 2019. 118 118 Money should buy the debt back if it is able to do so and then take the following steps. If it is not able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below.

- It must remove all interest, fees and charges from the balance on the outstanding loan, and treat any repayments made by Miss S made towards the loan as though they had been repayments of the principal loan amount of £2,000. It's likely Miss S would have made overpayments, so then it must 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.
- It must remove any adverse information recorded on Miss S's credit file in relation to this loan, once it has been repaid.

*HM Revenue & Customs requires 118 118 Money to deduct tax from this interest. It should give Miss S a certificate showing how much tax it's deducted, if she asks for one.

my final decision

For the reasons I've explained, I uphold this complaint and direct Madison CF UK Limited to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 16 March 2021.

Siobhan McBride

Ombudsman