

The complaint

Mr G complained that Madison CF UK Limited (trading as 118 118 Money) lent to him irresponsibly.

What happened

Mr G took out a single loan from 118 118 Money in April 2018. He borrowed £1,000 and the total cost of the credit he agreed to repay worked out, with interest, at £2,303.52. He agreed to pay the loan by making 24 monthly instalments of £95.98.

The first monthly repayment was due on 1 May 2018. Mr G made this repayment on time. But it looks like his repayment problems started shortly afterwards. Over the next few months, Mr G failed to make his loan repayments. And, after this had happened repeatedly, 118 118 Money sold the account to a debt collection agency in November 2018.

Mr G brought his complaint to us when he wasn't able to resolve it with 118 118 Money.

In summary, Mr G didn't think that 118 118 Money made sufficient checks and it didn't lend to him responsibly. Mr G told us that his dealings with 118 118 Money had a detrimental impact on his financial position and also on his mental health as he had experienced unnecessary stress.

One of our adjudicators looked at what had happened.

Our adjudicator thought that whilst 118 118 Money had carried out proportionate checks to see if Mr G could afford the loan, the credit report it obtained showed that Mr G had outstanding credit and that he had taken out a number of loans shortly before taking this loan. Mr G's existing credit commitments, combined with the repayments for this loan, came to more than a 1/3 of his income. So our adjudicator thought it was unlikely he would be able to sustainably repay this loan.

Our adjudicator set out detailed directions indicating what 118 118 Money needed to do to put things right.

118 Money disagreed with our adjudicator's view. It appreciated what our adjudicator said regarding the percentage of income but said it was important to keep in mind that the purpose of the loan was consolidation. It said the amount 118 118 Money advanced was enough to settle all of the smaller balances on Mr G's unsecured loans. And, even with this, the loan was still affordable for Mr G.

One of our other adjudicators reviewed the file. She came to the same overall view as the first adjudicator.

Mainly, she said:

- although Mr G said the loan was for consolidation purposes, 118 118 Money should've realised that the repayments weren't sustainable given the volume of his outstanding credit commitments when he took out the loan
- Mr G's existing monthly credit commitments were around 60% of his declared monthly income of £1,600, before other expenses such as rent, travel and utility bills

were taken into consideration. This was a significant percentage of his declared monthly income going toward credit repayments

- the number of recently started loans shown on his credit report showed that Mr G was in immediate financial difficulty
- although taking out this loan would somewhat have improved Mr G's finances in the short term, our adjudicator didn't think it would have consolidated his debt enough to make a substantial difference to his overall circumstances – and he'd likely have to borrow again to keep on top of his finances.

So, as the complaint hasn't been settled, it comes to me for a decision.

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 lend, lenders must work out if a borrower can afford the loan repayments alongside other reasonable expenses the borrower also has to pay.

The rules don't say what a lender should look at before agreeing to lend. But reasonable and proportionate checks should be carried out. For example, when thinking about what a borrower has left to spend on a new loan after paying other expenses, as well as taking into account things like the loan amount, the cost of the repayments and how long the loan was for, a proportionate check might mean a lender should also find out the borrower's credit history and/or check the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if a loan would've been approved if the checks had been done.

If proportionate checks are done and a loan looks affordable, a lender still needs to think about whether there's any other reason why it would be irresponsible or unfair to lend. For example, if the lender should've realised that the loan was likely to lead to more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

I've kept all these things in mind and I've thought carefully about the information 118 118 Money relied on when it decided to lend to Mr G.

118 Money asked Mr G about his income and expenses and gathered information about what he was spending his money on.

It recorded Mr G's income as £1600 per month. When looking at what he could afford, 118 118 Money included an amount for his rent and allowed for Mr G spending £665.55 on other credit. It also included an amount of £400 for his other outgoings. Overall, 118 18 Money calculated his outgoings would come to £1,285.55.

This meant that by 118 118 Money's reckoning, Mr G should've had around £314 left over – which made it look like the monthly repayments for his 118 118 Money loan would be comfortably affordable. It worked out that *after* paying his 118 118 Money loan, Mr G should still have had £218.47.

But the discrepancy between what Mr G said he was spending on debt and what the credit file showed makes me think that the lender's checks weren't proportionate. And I don't think that 118 118 Money properly took into account the information it was able to see on the credit check it carried out.

Mr G's actual spending on other credit was significantly more than the figure 118 118 Money was basing its affordability calculation on.

As far as I can see, it's fair to say that Mr G was likely to be spending more than £1000 on his loans and credit cards – in total, around almost two thirds of his take home pay.

I think that was a clear warning sign that Mr G might be experiencing financial difficulty.

I've taken into account that Mr G said the purpose of the 118 118 Money loan was to consolidate some loans – in other words, to pay off other debt in order to help reduce his monthly outgoings.

But Mr G's recent borrowing track record suggested he was repeatedly borrowing. Although he'd just repaid one small loan which had been costing him £38 per month, this was more than offset by information which showed he had started at least 4 new loans within the previous month – and he was also still paying for other outstanding credit.

The fact Mr G had taken out several recent loans looks to me like a sign he was facing financial difficulties.

Thinking about all of this information, I don't think 118 118 Money could reasonably have satisfied itself that providing this loan to Mr G wouldn't put him in a worse position by increasing his overall debts.

Given his recent borrowing, there was a real risk that Mr G might use this loan to help him meet his immediate need to make loan repayments with the result this loan would simply add to his existing debt.

And even if Mr G had used this loan to repay some existing debt, I don't think 118 118 Money had sufficient reason to think this would've improved his overall position sufficiently to achieve a significant and sustainable improvement in his financial situation.

I think the concerns I've mentioned are borne out by the fact that there's no clear information showing that Mr G used this loan for its stated purpose and he quickly ran into difficulty with the repayments on this loan.

So for these reasons, I'm upholding this complaint.

Putting things right

118 118 Money should buy back the outstanding debt sold if able to do so and then take the following steps. If 118 118 Money is not able to buy the debt back then it should liaise with the new debt owner to achieve the results outlined below.

A) remove all interest, fees and charges from the balance on this loan, and treat any repayments made by Mr G as though they had been repayments of the principal. If this results in Mr G having made overpayments then the amount overpaid should be refunded

with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled.

B) If there is still an outstanding capital balance then 118 118 Money should try to agree an affordable repayment plan with Mr G. 118 118 Money shouldn't pursue outstanding balances made up of any principal it has already written-off.

C) Any adverse information recorded on Mr G's credit file in relation to the loan should be removed.

HM Revenue & Customs requires 118 118 Money to deduct tax from this interest. 118 118 Money should give Mr G a certificate showing how much tax has been deducted if he asks for one.

My final decision

I uphold this complaint and direct Madison CF UK Limited (trading as 118 118 Money) to take the steps set out above to put things right for Mr G.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 3 April 2021.

Susan Webb
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