

complaint

Ms E complains that Madison CF UK Limited (trading as 118118 Money) lent to her irresponsibly.

background

Ms E applied for a £1,000 loan from the business in May 2015. She says that the business should not have provided this to her.

Ms E says that the bank statement she provided in her application process showed payments to gambling websites and other payday lenders. She says that while the business says it checked her credit file if it had done it would not have lent to her. She says she had a history of late payments and defaults and had taken out various payday loans in quick succession.

The business said that Ms E's bank statement was requested in order to verify her bank details. It says bank statements are not required on every application. The business says that it assessed Ms E's credit report and was aware of her defaults. It says that while Ms E did have defaults on her account two were settled in 2013 and one remained outstanding. It says that other information showed she had repaid other loans and had managed her other credit accounts.

The business says that Ms E provided information about her income and expenditure. It says that Ms E provided a low expenditure figure and it believed her expenditure would be higher and it used a higher figure in its assessment. It says based on the information it had the loan repayments were affordable and would leave Ms E with a disposable income after the monthly repayment of over £200.

On 1 May 2015 the business says it called Ms E and explained the loan details and Ms E confirmed the repayments were affordable. It says that it checked if the loan or Ms E's wages were being used to settle the active payday loans on her credit file and she said these had been settled.

The adjudicator said that the affordability checks carried out by the business were not sufficient. He said that the business said it had access to Ms E's credit file and that based on this it should have seen that she had a long standing dependency on credit. He said Ms E had a number of other outstanding debts at the time the loan was provided and that her credit report noted previous defaults.

The adjudicator said that he was unable to conclude the lending was responsible and recommended that Ms E be refunded all interest and charges on the loan plus interest and that this loan was removed from her credit file.

The business said that it did carry out proper affordability checks before lending to Ms E. It said that Ms E had confirmed she had settled her outstanding loans with the payday lenders before it lent to her. It says that had Ms E been truthful and confirmed these loans remained outstanding then her application would not have been approved. It said that it relied on the information Ms E provided about her income and it undertook a review of her expenditure. It said that the information on Ms E's credit report about her mail order account showed she was able to manage a credit account.

my findings

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

Ms E applied for a £1,000 loan repayable over 12 months. The business is required to carry out proportionate checks to assess the affordability of a loan. It says that it carried out an income and expenditure check and also checked Ms E's credit file. I find this reasonable.

The key question is whether or not, based on the information provided about Ms E's income and expenditure and the information contained in her credit report, it was reasonable that the business considered the loan affordable.

The business has provided a breakdown of the information it considered and has said that it took into account the information in Ms E's credit file including the defaults.

I have looked at Ms E's credit report information provided by the business. There are three defaults recorded, two of which were satisfied in 2013. The outstanding default was recorded in September 2013. I find these should have raised concerns and I note the business has acknowledged that it took these into account.

Based on the age of the defaults; that two had been settled over two years before Ms E's loan application; and the size of the outstanding default; I do not find that these alone mean it was unreasonable for the business to lend to Ms E.

Ms E's credit information showed a few recent late payments and frequent use of payday lenders. However it also showed that in general, Ms E was making her repayments on time. It also showed that she had around £2,000 outstanding on a store card. Again this account had been managed within its limits and there was no suggestion that Ms E was not making her required monthly repayments.

On balance, I find it reasonable that Ms E's credit file was checked and that this raised concerns both in regard her previous defaults and frequent use of payday lenders. However, considering this in the context of the whole credit file which also showed Ms E managing her repayments, I do not find that the credit file information meant it was clear that the loan should have been declined.

Ms E also provided income and expenditure information. I have looked at Ms E's bank statement for the time the loan was provided and this supports that she was in employment and the income figure of £850.

Ms E said she had expenditure of £300. This appears low but I accept that she was living at home and so this could account for a lower expenditure. While I accept that Ms E's expenditure for the items she provided may not have been unreasonable, she provided no expenditure for other loans. Having looked at Ms E's credit file it was clear that she had outstanding loans and these should have been included.

The business says that Ms E confirmed that she had settled her outstanding payday loans and so this left only one outstanding loan for £500. I find that there is a requirement on Ms E to provide accurate information and that the business is allowed to rely on the information she provides. However, I also find that based on Ms E's credit file which showed her use of payday lenders, the business should have been concerned about this.

Looking at Ms E's credit commitments, it is hard to establish exactly how much she was paying each month for her existing commitments. However, based on the amount outstanding on her store card and the £500 loan I find that the business should have made allowances for this.

The business has said that it found Ms E's expenditure figure low and adjusted this for her assessment. I find this reasonable. Given Ms E's income of £850 her noted expenditure of £300 which the business adjusted, her £500 loan and store card on her credit file, I find on balance that the business should have been concerned about the affordability of loan repayments of £118 per month. Ms E did make one repayment in May but no repayments have been made since.

I appreciate Ms E's comments about gambling but as she did not raise this until after she had received the loan I do not find it reasonable to expect the business to have been aware of this.

On balance, while I find that the income and expenditure information supported the loan being affordable I also note there were concerns about the numbers provided. The credit report information should have raised concerns and while I find that no single item (including the defaults) meant the business should have known the loan would be unaffordable, I find that the overall picture it presented should have raised further concerns.

Ms E didn't provide accurate information about repaying her payday lenders. However, I find that the business had sufficient information about Ms E's circumstances overall to indicate that she would not be able to afford to repay the loan.

Overall, while I accept that checks were carried out I find that based on the information provided the business should have considered the loan unaffordable.

my final decision

My final decision is that I uphold this complaint. I instruct Madison CF UK Limited (trading as 118118 Money) to:

- refund all interest and charges applied to the loan, together with simple interest at 8% per annum from the date of each payment to the date of settlement; and
- remove any information recorded on Ms E's credit file in regard to this loan.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms E to accept or reject my decision before 31 May 2016.

Jane Archer
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