

complaint

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

background

The background to this complaint was set out in the provisional decision I issued in September 2020. An extract from this is attached and forms part of this final decision, so I will not repeat that information here.

In my provisional decision I set out why I didn't think the complaint should be upheld. I invited both parties to let me have any further comments and evidence. MCF has not provided us with anything further. Mr A provided us with some comments. Although I am only summarising here what Mr A has said, I have considered his entire response carefully before writing this decision.

Mr A has provided us with copies of his statements for an additional bank account. He says those statements show the extent of his gambling problems at the time he took this loan. He says that all three of his bank accounts were in overdraft and showed the extent of his borrowing from other lenders. He doesn't think it was reasonable for MCF to rely on his statement that he would be using the loan to consolidate his other borrowing. He thinks that had better checks been done it is likely that MCF would have seen the extent of his financial problems. He has provided us with evidence that he started receiving assistance from a debt management charity around three months after he took this loan

my findings

I've once more considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. Having done so I am not minded to change the conclusions I reached in my provisional decision. But I would like to comment on the additional information that Mr A has now provided to us.

When Mr A first made his complaint to us he shared bank statements from two separate accounts. Those accounts didn't show any evidence of gambling transactions. But he has recently sent us statements for a third account. And those statements provide very clear evidence that Mr A was most likely suffering from a gambling addiction at the time.

But what I need to decide here is whether I think it is reasonable that proportionate checks would have identified those problems. The loan that Mr A took was repaid by direct debit. The account details that Mr A provided to MCF were not those from which he was paying his gambling expenditure. Mr A appears to have been reticent to provide the statements showing gambling to this Service. So I think it reasonable to conclude that he would have been even less likely to provide them to MCF had it asked for copies of his bank statements before agreeing the loan. And I don't think, from the information MCF reasonably held from the credit check and what Mr A had said, that it would have identified this additional account. So I cannot reasonably conclude that proportionate checks would have made MCF aware of Mr A's gambling expenditure unless he'd declared it to the lender.

As I said in my provisional decision, this loan was only affordable since Mr A said he would be using it to consolidate his other borrowing. I cannot agree that MCF should have thought it unlikely that this is what he would do. Had it done so, it wouldn't have agreed to give him

the loan as even its own analysis showed that Mr A wouldn't be able to afford the repayments. Whilst at times I have seen lenders being less than thorough on the checks that have been performed, it is very unlikely that a lender would provide a loan that it knew couldn't be repaid. That makes very little business sense.

Although it is true that Mr A's accounts were in overdraft, those overdrafts weren't escalating. Nor was Mr A showing problems managing his money in the form of a significant number of unpaid transactions being returned. So I don't think the way his bank accounts were being operated should have concerned the lender.

So I still think that it would have been reasonable for MCF, had it done what I consider to be proportionate checks, to have agreed to give this loan to Mr A. So I don't think this complaint should be upheld.

my final decision

For the reasons given above, and in my provisional decision, I don't uphold the complaint or make any award against Madison CF UK Limited.

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

Paul Reilly
ombudsman

EXTRACT FROM PROVISIONAL DECISION

complaint

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

background

Mr A took one loan from MCF. He borrowed £1,000 in March 2016 and agreed to repay the loan in 24 monthly instalments. Shortly after taking the loan Mr A found it difficult to make his repayments and set up a revised repayment schedule. At the time he made the complaint Mr A still had a balance outstanding on his loan and I understand that MCF has recently sold the debt to a third party.

Mr A's complaint has been assessed by one of our adjudicators. She didn't think that the checks MCF had done before agreeing the loan had been sufficient. And she thought that better checks would have shown Mr A couldn't sustainably afford the repayments. So she thought the complaint should be upheld and asked MCF to pay Mr A some compensation.

MCF didn't agree with that assessment. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, 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. We've set out our approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding Mr A's complaint.

The rules and regulations at the time MCF gave this loan to Mr A 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 A. In practice this meant that MCF had to ensure that making the repayments wouldn't cause Mr A 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 A.

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 A.

MCF gathered some information from Mr A before it agreed the loan. It asked him for details of his income, and his normal expenditure although this was recorded as nil. It then used some industry statistical data to revise Mr A's declared expenditure upwards. And it checked his credit file to assess how much he was repaying to other creditors.

Mr A was entering into a significant commitment with MCF. He would need to make monthly repayments for a period of two years. So I would expect that MCF would want to gather, and independently check, some detailed information about Mr A'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 independently check the true state of Mr A's finances before agreeing the loan.

But although I don't think the checks MCF did before agreeing the loan were sufficient, that in itself doesn't mean that Mr A'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 A couldn't sustainably afford the repayments. So I've looked at Mr A'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 A 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 A's bank statements I can get a good idea of what better checks might have shown.

Mr A was borrowing from other lenders when he asked for the loan from MCF. Considering his income, and his other regular expenditure, those repayments when taken together would have made it unlikely that Mr A could afford to repay the loan in a sustainable manner. But I've listened to a recording of a call that took place between Mr A and MCF before the loan was finally approved. On that call Mr A explained that he would be using the loan to consolidate some of his other borrowing, including repaying payday loans. I think it would be reasonable for MCF to rely on what Mr A told it about his plans. And so I don't think it needed to take account of the repayments on those loans when considering the affordability of Mr A's application.

Without the other payday loan repayments I don't think the evidence from Mr A's bank statements suggests that he would face problems repaying the loan from MCF in a sustainable manner. His bank statements don't show evidence of serious financial problems such as regular unpaid transactions or escalating levels of overdraft or other debt. And the credit check that MCF performed suggested that Mr A generally managed his credit accounts well. So I don't currently think that what I consider to be proportionate checks should have led MCF to decline Mr A's loan application.

I appreciate how disappointing my decision will be for Mr A. But, in summary, although I don't think the checks MCF did before agreeing this loan were proportionate, I don't think better checks should have led to the loan request being declined. So I don't currently think this complaint should be upheld.