

complaint and background

Mr H complains that Madison CF UK Limited, trading as 118 118 Money, lent to him irresponsibly and without carrying out proper affordability checks. He would like all the fees and charges associated with the loan refunded. He also feels that 118 118 Money didn't do all it could to help him when he let it know that he was struggling financially.

I've attached some sections of my provisional decision from March 2021, which form part of this final decision. In my provisional decision I set out the reasons why I was planning to uphold this complaint. I asked both Mr H and 118 118 Money to let me have any more information they wanted me to consider. Whilst Mr H kindly provided some further context to the financial difficulties he experienced in 2017, that context didn't alter the outcome, and he didn't disagree with my findings. 118 118 Money has confirmed it accepts my findings.

my findings

I've reconsidered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint. As both parties have accepted my provisional findings, I have no reason to depart from them. It therefore follows that I uphold this complaint, and direct 118 118 Money to put things right for Mr H as set out below.

118 118 Money has confirmed that the debt was assigned to a third party in 2019. 118 118 Money says it is not able to buy the debt back, so it must therefore liaise with the new debt owner to ensure the results outlined below are achieved.

A) 118 118 Money must remove all interest, fees and charges from the balance on the outstanding loan, and treat any repayments made by Mr H as though they had been repayments of the principal on the outstanding loan.

B) If this results in Mr H having made overpayments then it must refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the payments were made, to the date the complaint is settled.

C) If there is still an outstanding balance following the actions set out in "A", then 118 118 Money should agree a suitable repayment plan with Mr H.

D) It must remove any adverse information recorded on Mr H'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 Mr H a certificate showing how much tax it's deducted, if he asks for one.

my final decision

For the reasons explained, I uphold this complaint and direct Madison CF UK Limited to put things right as set out in the preceding section of this decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 18 April 2021.

Siobhan McBride
Ombudsman

Copy of relevant sections of provisional decision

background

In March 2017 118 118 Money approved a loan of £3,500 for Mr H, which was scheduled to be repaid at approximately £272 per month over a term of 24 months. The purpose of the loan was not recorded at the time. When assessing the application, 118 118 Money asked Mr H about his financial circumstances and carried out a credit check before approving the lending.

Unfortunately, it seems that Mr H ran into some financial difficulties in August 2017 and appears to have entered a repayment plan which reduced his monthly repayments to £100 initially. However, that plan failed after a couple of months, and he began making payments of £1 per month until April 2018. After that time, he does not seem to have made any further payments and 118 118 Money has confirmed that the debt was sold on to a third party in April 2019.

The adjudicator looked at the evidence and thought 118 118 Money hadn't done anything wrong in approving the loan, and that it had done all it needed to when trying to help Mr H with his difficulties in repaying the loan. Mr H disagreed and asked an ombudsman to look at his complaint.

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.

Having done so, I'm currently planning to uphold it in part, 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 Mr H 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 he could manage the repayments,

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

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

There are two questions I need to consider when deciding this case, which I will deal with separately below.

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

118 118 Money asked Mr H some questions about his income and expenditure, and carried out a credit check when considering his loan application. However, I don't think that was enough, and I say so because of what 118 118 Money would have seen as a result of both Mr H's declarations and the credit check.

Mr H declared a monthly income of £1,200 and expenditure of just £190. Those outgoings were broken down into various categories, including housing costs, council tax, insurance, food, and amounts needed to service other debts. He estimated monthly outgoings of £80 to service existing debts, £80 in monthly rent and £30 per month for food. This was despite him also declaring that he was renting an unfurnished home, not, for example, living with parents or other family. Based on what Mr H told it about his financial situation, 118 118 Money could have concluded that he had a disposable income of nearly £1,000, which would have been enough to

service an additional monthly repayment of around £272.

However, 118 118 Money was required to actually *engage* with the information it gathered, not merely accept something as flagrantly implausible as Mr H's declared expenditure. How a rented home in a major English city could have cost only £80 per month, inclusive of council tax and all utility bills, beggars belief. And how Mr H could have survived spending £1 per day on food is also verging on miraculous. These disclosures should have flagged potential concerns.

In some ways, the results of the credit check it completed showed 118 118 Money a broadly similar picture to Mr H's disclosures. He did indeed appear to have a monthly debt burden of around £80, but that was because it is clear that he was by and large making minimum repayments (e.g. £5 to £6 per month) on credit card accounts that were all but maxed out. Additionally, it showed that his current account was at its (substantial) overdraft limit. These factors do not suggest an individual who is in a stable financial position with a monthly disposable income of £1,000.

So, I don't think 118 118 Money did what it needed to in terms of checks when considering this loan, as it appears to me to have ignored the flags described above signalling the real possibility of this borrowing being unsustainable. Therefore I have gone on to think about what it may have found if it had been more thorough, to decide whether it was wrong to approve Mr H's application or not.

What would proportionate checks have shown, had 118 118 Money carried them out?

The regulations do not dictate how lenders should carry out checks, or prescribe what information they should rely on. So 118 118 Money could have done various things to verify what Mr H was telling them, and overall gain both a deeper and broader understanding of his financial situation. What I have seen are copies of Mr H's bank statements from around the time, specifically January, February and March 2017. In the round, they paint a picture of someone heavily in debt who could not afford to take on any new borrowing, keeping in mind what CONC says about what sustainable borrowing looks like.

The key issues raised by the information in the statements are:

- That Mr H's monthly income was actually variable, fluctuating between about £1,000 in January, £439 in February, and about £630 in March (received after the loan was advanced). So it was clearly below the £1,200 declared, and some months could be only about a third of that amount. With a monthly income of £439, even the implausible monthly expenditure declared of £190 would have left Mr H with insufficient disposable income to make the monthly repayment of £272 under consideration. There were frequent transfers between this account and one ending -262, both deposits and payments. It would appear to be another account with the same bank, and Mr H was generally paying more out to this account than he was receiving back. This suggests that he was unlikely to have had sufficient credit in that other account to improve his financial position.
- There were frequent transfers between Mr H and an individual with the initials CF, sometimes for substantial amounts. I can't see transactions for his main bills and it may be that Mr H's main bills and living expenses were being routed through CF, I don't know. But it is clear that his expenditure far exceeded that declared to 118 118 Money.
- That Mr H's current account was never in credit. (Until the £3,500 loan from 118 118 Money was deposited). He also did not manage to remain within his agreed overdraft limit (which was higher than his monthly income). Put simply, he was clearly reliant on borrowing merely to exist, and it quickly becomes clear why he was only able to make small repayments towards his credit card balances.

The fact that Mr H was reliant on his overdraft, rather than other high cost credit providers, to survive does not alter the fact that he could not possibly have made the repayments to 118 118 Money without borrowing to do so. That is the very definition of unsustainable under the regulations.

Nothing I have seen portrays this loan as being affordable for Mr H, and so it follows that I currently plan to uphold his complaint about the lending.

Did 118 118 Money treat Mr H fairly when he let it know he was having financial difficulties?

The adjudicator set out how 118 118 Money responded when Mr H told it he couldn't make the contractual repayments. Mr H hasn't disagreed with what the adjudicator said as far as I can see.

His difficulties first arose only a few months after the loan was given. It is clear that 118 118 Money quickly tried to complete a full income and expenditure exercise with Mr H, but that he didn't have the necessary information to participate. It also agreed to his request for a repayment plan of £100 per month. This plan didn't succeed, and it would seem that a few months later 118 118 Money reduced the repayment plan to £1 per month. Again, it tried to complete an income and expenditure exercise with Mr H to work out what he could afford to repay. It would seem Mr H wasn't willing to go through that exercise. At times, months elapsed where 118 118 Money seems to have received no contact from Mr H. It acknowledged his difficult situation, passed his account to its "specialist support team", and referred him to free debt management support. By the time it sold the debt to a third party collection agency, it would seem it had received no repayments at all from Mr H for a year. All in all, I can't see that 118 118 Money could have done any more than it did to treat Mr H fairly when he disclosed his financial difficulties.