Financial Ombudsman Service

complaint

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

background

Mr F was given two loans by MCF in July 2016 and January 2017. He repaid both loans far earlier than the 24 month terms that he'd agreed. A summary of Mr F's borrowing from MCF is as follows;

Loan Number	Borrowing Date	Repayment Date	Loan Amount
1	30/07/2016	02/11/2016	£ 1,000
2	16/01/2017	22/05/2017	£ 2,000

Mr F's complaint has been assessed by one of our investigators. She didn't think MCF should have agreed to give either of the loans to Mr F. So she asked MCF to pay Mr F some compensation.

MCF agreed with our investigator's findings in relation to the second loan. But it still didn't think it had been wrong to give the first loan to Mr F. So, as the complaint hasn't been resolved informally, it has been passed to me, an ombudsman, to decide. This is the last stage of our process. If Mr F accepts my decision it is legally binding on both parties.

my 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 F's complaint.

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

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 F.

MCF has told us about the checks it did before lending to Mr F. Before each loan it asked him for details of his income and his normal expenditure. And it checked his credit file before each loan too. MCF has also provided us with recordings of the telephone calls it had with Mr F before it agreed each of the loans.

Mr F was entering into significant commitments with MCF. Both loans were due to be repaid over a period of two years. So I would expect that a responsible lender would want to get a full, and independent, view of a consumer's finances before agreeing the loans. So I don't think the checks I've described above were sufficient. I think MCF needed to verify the information Mr F was providing about his income and expenditure rather than simply relying on what he'd said.

But although I don't think the checks MCF did before agreeing the loans were proportionate that in itself doesn't mean Mr F's complaint should be upheld. I'd also need to be persuaded that better checks would have led to a responsible lender declining his loan applications. So I've looked at copies of Mr F's bank statements from around the time of each loan to get a better understanding of the true state of his finances.

In performing that check I am not suggesting that this is exactly what MCF needed to do. There are many other ways of getting an independent view of a consumer's finances. But given the time that has passed I think that reviewing bank statements gives me a good understanding of what would have been uncovered by what I consider to be proportionate checks.

At the time he applied for the first loan Mr F told MCF that his normal monthly income was £1,740, and that his normal monthly expenditure was just over £1,000. So that should have left him with sufficient disposable income each month to allow him to repay his borrowing. But even a cursory check of Mr F's credit file shows that what he'd declared for his credit expenditure was inaccurate. And in the month before taking this loan Mr F spent heavily on what appear to be online gambling transactions. In that month he'd spent equal to almost his entire income on these transactions. Based on what would have been seen from these checks I don't think it would be reasonable to conclude that Mr F would be able to repay this loan, or indeed any other credit, in a sustainable manner. So I don't think MCF should have given this loan to Mr F.

I think by the time of the second loan Mr F's gambling expenditure had started to become more controlled. Although he was still making transactions of this nature, the amount he spent in the preceding month was much less than at the time of the first loan. But I think MCF should have been concerned that Mr F had repaid his first loan well before it was due, but then asked to borrow double the amount just a few weeks later. And it would have seen that his credit expenditure was higher than it had been at the time of loan 1. I think that, in conjunction with the gambling expenditure that it would have still seen, might have suggested that Mr F's finances were still someway off being on a stable footing.

In summary I don't think the checks MCF did before agreeing either of the loans were proportionate. And I think that better checks would have shown that Mr F couldn't afford to repay the loans in a sustainable manner. So MCF shouldn't have agreed to lend to Mr F and so now needs to pay him some compensation.

putting things right

I don't think MCF should have agreed to give either of the loans to Mr F. So for each loan MCF should;

- refund all the interest and charges Mr F paid on the loans
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†
- remove any adverse information recorded on Mr F's credit file in relation to the loans.

† HM Revenue & Customs requires MCF to take off tax from this interest. MCF must give Mr F a certificate showing how much tax it's taken off if he asks for one.

my final decision

My final decision is that I uphold Mr F's complaint and direct Madison CF UK Limited to put things right as detailed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 7 November 2020.

Paul Reilly
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