Financial Ombudsman Service

complaint

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

background

Mr C was given four loans by MCF between December 2014 and March 2017. The first loan was due to be repaid in 12 monthly instalments. Around three months into that term Mr C refinanced the loan, taking some additional borrowing and extending his repayment period to 24 months. He refinanced his second loan, again taking some additional borrowing, around nine months later. Mr C's third and fourth loans were both repaid earlier than the planned 24 month term. A summary of Mr C's borrowing from MCF is as follows;

Loan Number	Borrowing Date	Repayment Date	Loan Amount
1	17/12/2014	Refinanced	£ 2,000
2	27/03/2015	Refinanced	£ 3,652
3	11/12/2015	06/02/2017	£ 4,985
4	27/03/2017	11/04/2017	£ 3,500

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

MCF agreed with our investigator's findings in relation to the last three loans. But it still didn't think it had been wrong to give the first loan to Mr C. 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 C 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 C's complaint.

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

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 C.

MCF has told us about the checks it did before lending to Mr C. 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 telephone calls it had with Mr C before it agreed the first and last loan.

Mr C was entering into significant commitments with MCF. The first loan was due to be repaid over a period of 12 months. And the subsequent loans were scheduled to be repaid over 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 C 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 C'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 C'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 C told MCF that his normal monthly income was £1,200, and that his normal monthly expenditure was £200. So that should have left him with

£1,000 each month that he could use to repay his borrowing. But even a cursory check of Mr C's bank statements shows that what he'd declared was inaccurate. His income was much less than he'd declared, and his expenditure far higher. The overdraft on Mr C's bank account was at, or close to, his limit for most of the month and he was borrowing regularly from short term lenders. And Mr C was spending heavily on what appear to be online gambling transactions. Based on what would have been seen from these checks I don't think it would be reasonable to conclude that Mr C 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 C.

And that picture doesn't change over the remainder of the time that Mr C was borrowing from MCF. He continued to spend heavily on online gambling transactions, financing that spending and the repayment of many other loans by further borrowing from a range of different lenders. Looking at Mr C's credit file shows the large number of loans that he had taken. And whilst that credit file suggests that Mr C was repaying his credit on time, that doesn't mean he was doing so sustainably. So I don't think MCF should have given any of the remaining loans to Mr C either.

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

putting things right

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

- refund all the interest and charges Mr C 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 C's credit file in relation to the loans.

† HM Revenue & Customs requires MCF to take off tax from this interest. MCF must give Mr C 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 C'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 C to accept or reject my decision before 7 November 2020.

Paul Reilly
ombudsman