DRN-3238104

The complaint

Mrs H complains that Madison CF UK Limited trading as 118 118 Money ("MCF") lent to her in an irresponsible manner.

What happened

Mrs H was given two loans by MCF. She first borrowed £2,000 in January 2020 that she agreed to repay in 12 monthly instalments. Around seven months later Mrs H refinanced her first loan, and took £3,450 of additional borrowing. So in July 2020 Mrs H borrowed £4,546.44 that she agreed to repay in 24 monthly instalments. A balance remained outstanding on Mrs H's second loan when she made her complaint.

Mrs H's complaint has been assessed by one of our adjudicators. She didn't think that there was sufficient evidence to conclude that MCF shouldn't have given the first loan to Mrs H. But she thought the results of MCF's checks should have led the lender to conclude that, at the time she asked for the second loan, Mrs H was facing problems managing her money. So she didn't think MCF should have agreed to give the second loan to Mrs H, and she asked the lender to pay Mrs H some compensation.

MCF didn't agree that it had been wrong to give the second loan to Mrs H. 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 Mrs H accepts my decision it is legally binding on both parties.

What I've decided – and why

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 Mrs H's complaint.

The rules and regulations at the time MCF gave these loans to Mrs H required it to carry out a reasonable and proportionate assessment of whether she could afford to repay what she 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 Mrs H. In practice this meant that MCF had to ensure that making the repayments wouldn't cause Mrs H 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 Mrs H.

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 Mrs H.

MCF gathered some information from Mrs H before it agreed the first loan. It asked her for details of her income, and her normal expenditure. It then used some industry statistical data to ensure that Mrs H's declared expenditure was realistic. And it checked Mrs H's credit file to see how much she was paying to other lenders, and how she had managed credit in the past. When Mrs H applied for the second loan MCF gave her the opportunity to update the income and expenditure information she'd previously provided. And it again checked her credit file.

Mrs H was entering into a significant commitment with MCF when she asked for the loans. She would need to make monthly repayments for periods of one and two years. So I think it was right that MCF wanted to gather, and independently check, some detailed information about Mrs H's financial circumstances before it agreed to lend to her. I think that the checks I've described above were sufficient to achieve that aim – I think the checks MCF did before agreeing each loan were proportionate.

But simply performing proportionate checks isn't always enough. A lender also needs to react appropriately to the information shown by those checks. Those results might sometimes lead a lender to undertake further enquiries into a consumer's financial situation. Or, in some cases, the results might lead a lender to decline a loan application outright. So I've looked at the results of MCF's checks to see whether it made a fair lending decision on each loan.

When she applied for the first loan Mrs H told MCF that she would have around £1,000 left over each month that she could use to make her repayments. I don't think it was unreasonable for MCF to rely on what Mrs H had said. So it would have seemed likely that Mrs H would be able to afford the repayments she'd need to make on the loan.

The credit check results didn't show anything that I think should have led MCF to decline Mrs H's application. She had a number of credit card accounts that showed zero balances. There might have been some concern that Mrs H had taken a relatively large loan just four months earlier, but she appeared to have managed her repayments well, and they were included in the disposable income calculations that MCF had performed. And both a credit card account and bank overdraft were utilising less than half their agreed limits.

So, on balance, I don't think that there were any signs at that time that Mrs H might be facing problems managing her money. I think it was reasonable for MCF to conclude that she would be able to repay the loan in a sustainable manner. So I don't think MCF was wrong to give the first loan to Mrs H.

Just over halfway through the agreed repayment term, Mrs H asked to refinance her first loan. And of even more concern she asked to take some additional borrowing amounting to almost £3,500 – far more than she'd borrowed the first time. I think both the need to refinance the loan, and take so much additional borrowing should have caused serious concerns to MCF about the state of Mrs H's finances.

And I think those concerns should have been amplified by the changes that MCF could see on Mrs H's credit file. In the seven months since taking the first loan, Mrs H had taken three new loans. And she now had two credit card accounts that were close to their agreed limits. Taken together those presented a picture of someone that was finding it increasingly difficult to manage their money, and was relying on credit to meet their day to day living costs and debt repayments.

So I don't think it was reasonable for MCF to give the second loan to Mrs H. I think the results of its checks showed that she was unlikely to be able to meet her repayments in a sustainable manner. So I think this part of Mrs H's complaint should be upheld and that MCF needs to put things right.

Putting things right

I don't think MCF should have agreed to give the second loan to Mrs H in July 2020. So MCF should;

- remove any interest and charges still outstanding on the second loan and treat all the payments Mrs H made towards this loan as payments towards the capital

- if reworking the loan account as I've directed results in Mrs H effectively having made payments above the original capital borrowed, then MCF should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement†.

- If reworking the loan account leaves an amount of capital still to be paid, then I remind MCF that it should take a sympathetic view if it needs to agree an affordable repayment plan with Mrs H

- remove any adverse information already recorded on Mrs H's credit file in relation to the second loan

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

My final decision

My final decision is that I uphold part of Mrs H'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 Mrs H to accept or reject my decision before 29 April 2022.

Paul Reilly
Ombudsman