

The complaint

Mr L has complained that Madison CF UK Limited trading as 118 118 Money was irresponsible in lending to him.

What happened

118 118 Money provided Mr L with the following loans:

	Date taken	Amount	Term	Monthly repayment	Total amount repayable	Loan status
Loan 1	20/01/17	£2,000	24 months	£152.64	£3,663.36	Settled 28/09/17
Loan 2	28/09/17	£2,630.61	24 months	£209.67	£5,032.08	Settled 25/05/18

Mr L complained that 118 118 Money hadn't carried out proper checks before lending to him.

118 118 Money looked into his complaint. It said it had carried out proper checks and it thought the loans were affordable.

Mr L referred his complaint to us. Our adjudicator upheld the complaint in part. She didn't think 118 118 Money had carried out proper checks in respect of Loan 2.

As 118 118 Money didn't agree, the matter has been referred to me.

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 general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website.

Having carefully thought about everything, I think that there are two overarching questions that I need to answer in order to fairly and reasonably decide Mr L's complaint. These two questions are:

1. Did 118 118 Money complete reasonable and proportionate checks to satisfy itself that Mr L would be able to repay the loans without experiencing significant adverse consequences?
 - If so, did it make a fair lending decision?
 - If not, would those checks have shown that Mr L would've been able to do so?

2. Did 118 118 Money act unfairly or unreasonably in some other way?

The rules and regulations in place required 118 118 Money to carry out a reasonable and proportionate assessment of Mr L's ability to make the repayments under the agreements. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower-focused" – so 118 118 Money had to think about whether repaying the loan would be sustainable. In practice this meant that the business had to ensure that making the repayments on the loans wouldn't cause Mr L undue difficulty or significant adverse consequences. That means he should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment he had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation.

In other words, it wasn't enough for 118 118 Money to simply think about the likelihood of it getting its money back, it had to consider the impact of the loan repayments on Mr L. Checks also had to be "proportionate" to the specific circumstances of the loan applications.

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. Even for the same customer, a proportionate check could look different for different applications.

In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);
- the higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);
- the greater the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr L's complaint.

Loan 1

When Mr L applied for the loan, he told 118 118 Money that his monthly income was £1,400 and his expenses (including other credit commitments) were £830. 118 118 Money said it carried out a credit search and verified Mr L's income using industry standard checks.

The credit search revealed Mr L owed a total of £2,971 over three active accounts. He was comfortably below the credit limits of his overdraft and credit card account. There was nothing very concerning revealed by the credit search.

I think 118 118 Money's checks were proportionate given the size and term of the loan and the value of the repayment in relation to Mr L's monthly income So I don't think 118 118

Money ought to have been concerned the loan wouldn't be sustainably affordable for Mr L. It follows that I don't think 118 118 Money was wrong to give Mr L Loan 1.

Loan 2

When this loan was taken out, £1,630.61 was used to repay Loan 1. Mr L told 118 118 Money his monthly income and expenses were broadly the same and the purpose of the remainder of the loan was home improvements or repairs.

118 118 Money's credit search showed that Mr L's total borrowing had increased in the eight months since taking out Loan 1 to £6,747 spread over five active accounts. I think 118 118 Money should have been concerned about his need to borrow more so soon after taking out Loan 1. In addition his credit commitments with the Loan 2 repayments would be around a third of his stated monthly income. Due to these factors I think 118 118 Money should have done further checks to assure itself that Mr L would be able to repay the loan in a sustainable way over the 24 month term. I think it ought to have carried out a more thorough review of Mr L's finances. As I can't see that this was done, I don't think that the checks carried out before providing Mr L with this loan were reasonable and proportionate.

I've looked at Mr L's bank statements from around the time he applied for this loan. I'm not suggesting here that these are the checks that 118 118 Money should necessarily have done. But I think looking at these would have given a good indication of the extent of Mr L's financial situation at this time. These show that in the three months before he took out Loan 2 Mr L's average salary was much less than he'd told 118 118 Money - by around £811 - and his credit commitments including the new loan repayment would have been over half of that. So I don't think that 118 118 Money treated Mr L fairly when it agreed to make Loan 2 as it was unlikely that he was going to be able to repay this loan without resorting to further borrowing.

I've also thought about whether 118 118 Money acted unfairly in some other way and I haven't seen any evidence that it did.

Putting things right

If 118 118 Money has sold Loan 2, it should buy this loan back if it is able to do so and then take the following steps. If 118 118 Money is not able to buy the loan back, then it should liaise with the new debt owner to achieve the results outlined below.

As I have concluded 118 118 Money shouldn't have provided Loan 2, it should:

- refund all interest, fees and charges applied to that loan;
- treat any payments made by Mr L as payments towards the capital amount of £2,630.61;
- If Mr L has paid more than the capital, then any overpayments should be refunded to him with 8%* simple interest from the date they were paid to the date of settlement;
- But if there's still an outstanding balance, 118 118 Money should come to a reasonable repayment plan with Mr L; and
- remove any negative information about Loan 2 from Mr L's credit file.

*HM Revenue & Customs requires 118 118 Money to take off tax from this interest. 118 118 Money must give Mr L a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons given above, I uphold Mr L's complaint and require Madison CF UK Limited trading as 118 118 Money to put things right for Mr L as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 31 May 2022.

Elizabeth Grant
Ombudsman