

## **The complaint**

Mr H complains that Madison CF UK Limited trading as 118 118 Money (“MCF”) lent to him in an irresponsible manner.

## **What happened**

Mr H was given a loan by MCF in April 2021. He borrowed £4,000 that he agreed to repay in 60 monthly instalments. It appears that Mr H started to face some problems repaying his loan around the time he made his complaint and a balance remains outstanding. Mr H has also complained about a credit card account that MCF provided to him shortly before he was given this loan. That complaint is being dealt with separately so this decision will only consider the loan that Mr H was given in April 2021.

Mr H’s complaint has been assessed by one of our adjudicators. He thought that MCF needed to gather some more information before it agreed to provide the loan to Mr H. And he thought that the additional information would have shown MCF that it would be unlikely Mr H could afford to make his repayments in a sustainable manner. So our adjudicator didn’t think the loan should have been agreed. He asked MCF to put things right for Mr H.

MCF didn’t agree with that assessment. 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 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 Mr H’s complaint.

The rules and regulations at the time MCF gave this loan to Mr H 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 H. In practice this meant that MCF had to ensure that making the repayments wouldn’t cause Mr 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 Mr 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 Mr H.

MCF gathered some information from Mr H before it agreed the loan. It asked him for details of his income. MCF appears to have recorded little about Mr H’s normal expenditure. It shows some housing costs, but nothing more. But I don’t know whether this is because MCF failed to ask for that information, or because Mr H failed to provide it. And MCF checked Mr H’s credit file to assess how much he was repaying to other creditors and how he had managed credit in the past.

Mr H was entering into a significant commitment with MCF. He would need to make monthly repayments for a period of five years. So I would expect that MCF would want to gather, and independently check, some detailed information about Mr H’s financial circumstances before it agreed to lend to him. I don’t think that the checks it did were enough – I think that at the very least it needed some detailed information about Mr H’s normal expenditure.

But although I don’t think the checks MCF did before agreeing the loan were sufficient, that in itself doesn’t mean that Mr H’s complaint should succeed. I’d also need to be persuaded that what I consider to be proportionate checks would have shown MCF that Mr H couldn’t sustainably afford the repayments. So I’ve considered what checks I think would have been proportionate here, and looked at what those checks would have shown MCF.

The credit check results that MCF received showed that Mr H had faced some serious problems managing his money in the past. The checks showed he had defaulted on at least six other accounts in 2017. Whilst Mr H had successfully settled most of those outstanding balances, he still owed money on one of the accounts.

It is often the case that consumers who have faced problems managing their money in the past, face similar problems in the future. Given the extent of the problems that Mr H faced in 2017 I think it would have been reasonable to expect MCF to have conducted some more extensive checks into his financial situation. So I’ve looked at Mr H’s bank statements, and what he’s told us about his financial situation, to see what these further checks would have shown MCF.

At this stage I want to be clear that I am not suggesting that this is the exact check that MCF should have carried out. I do think MCF needed evidence to understand what was happening with Mr H's finances. And looking at his bank statements is one way of achieving that although there are of course many other ways that level of detail could be established. But I think that by looking at Mr H's bank statements I can get a good idea of what better checks might have shown.

It is clear from Mr H's bank statements that he was facing serious problems with his finances, and in particular with what appears to be uncontrolled gambling expenditure. In the months leading up to this loan being agreed the bank statements show that Mr H regularly spent far in excess of the income he declared on transactions of this nature. So I don't think that any responsible lender, having had sight of Mr H's bank statements, could have concluded it likely that he'd be able to repay any borrowing in a sustainable manner.

So I don't think it was reasonable for MCF to provide this loan to Mr H. What I would consider to be proportionate checks would have shown MCF that it was unlikely that Mr H would be able to repay the loan in a sustainable manner. So I think Mr H's complaint should be upheld, and MCF needs to put things right.

### **Putting things right**

I don't think MCF should have agreed to lend to Mr H in April 2021. So MCF should;

- remove any interest and charges still outstanding on the loan and treat all the payments Mr H has made towards this loan as payments towards the capital
- if reworking Mr H's loan account as I've directed results in Mr 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, as seems likely, reworking Mr H's loan account leaves an amount of capital still to be paid, then I remind MCF that it should take a sympathetic view when seeking to agree an affordable repayment plan with Mr H
- remove any adverse information already recorded on Mr H's credit file in relation to the loans

† HM Revenue & Customs requires MCF to take off tax from this interest. MCF must give Mr H 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 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 Mr H to accept or reject my decision before 5 July 2022.

Paul Reilly  
**Ombudsman**