

The complaint

Miss H complains that 118 118 CF UK Limited, trading as 118 118 Money (“118 118”), irresponsibly granted her a credit card and a loan she couldn’t afford to repay.

What happened

In August 2020 Miss H applied for and was accepted for a credit card. She was given an initial credit limit of £1,200. In February 2021 she was given a credit limit increase to £2,000.

In May 2021 Miss H was also approved for a fixed sum loan agreement for a loan for £2,500. This was repayable over 24 months by way of agreed monthly repayments of £151.21.

Miss H says that 118 118 didn’t complete adequate affordability checks for both the card and the loan.

118 118 looked at the complaint. Whilst it thought the checks it carried out before granting the loan were fair and proportionate, it upheld the credit card complaint. As the credit card account had been sold on to a third party, it requested that they make a credit to the account in the sum of £981.82. This refund included interest plus any charges and fees that had been added to the card since its opening.

Our investigator thought the offer made by 118 118 for the credit card was fair so it didn’t need to do anything more. She also thought that for the loan 118 118 didn’t act unfairly or unreasonably by agreeing to lend to Miss H.

As Miss H didn’t agree with these findings, her complaint has been passed to me for a final decision.

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.

118 118 will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don’t consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

I’d like to reassure Miss H that I’ve looked at the complaint afresh and independently reviewed all the available information, including what Miss H said in response to our investigator’s view. Having done so, I agree that the offer made by 118 118 for the credit card is fair. However, for broadly the same reasons as our investigator, I am not upholding the complaint about the loan. I’ll explain why.

Credit card

I agree that 118 118, whilst it carried out some checks as to Miss H's existing credit commitments and relied on what she said about her circumstances and income, could have done more. I say this given that the search results showed that Miss H already owed around £4,500 and had a recent history of defaulting on credit. Given this significant level of credit commitments, plus the monthly repayments they'd require, it's likely that sustainably repaying these would have taken up a significant proportion of Miss H's monthly income. So I think it would have been proportionate for 118 118 to have got a more thorough understanding about Miss H's financial circumstances before agreeing to lend to her and then going on to increase her credit limit.

I can't be sure exactly what 118 118 would have found out if it had asked at the time. In the absence of anything else, I think it would be reasonable to place significant weight on the information contained in Miss H's bank statements as to what would most likely have been disclosed.

I see our investigator reviewed three months of bank statements leading up to the lending decision as well as the credit limit increase. I've done the same. These show details of what Miss D was spending on credit as well as her other spending commitments each month. I agree that her income was less than what was shown on her application form. But from what I've seen I think it's likely that, allowing for her monthly credit and non-credit outgoings, Miss D would be left with sufficient disposable income each month to make regular, sustainable repayments towards this new credit facility.

However, 118 118 has carried out its own review and upheld Ms D's complaint about her card. In the circumstances, I won't be asking it do anything more.

Loan

The rules don't say exactly what a lender should look at before agreeing to lend, but reasonable and proportionate checks should be carried out. Lenders must work out if a borrower can sustainably afford the loan repayments alongside the other reasonable expenses that the borrower also has to pay. This should include more than just checking that loan payments look to be affordable. A proportionate check might also require the lender to find out the borrower's credit history and also take further steps to verify the borrower's overall financial situation.

If reasonable and proportionate checks weren't carried out, I need to consider if the loan would have been approved if the checks had been done. If proportionate checks were done and a loan looks affordable, a lender still needs to think about whether there's any other reason why it would be irresponsible or unfair to lend. For example, if the lender should have realised that the loan was likely to lead to significant adverse consequences or more money problems for a borrower who is already struggling with debt that can't be repaid in a sustainable way.

I think there was a particular onus on 118 118 to make sure it wasn't lending irresponsibly to Miss H given the overall cost of the loan to her. So I've kept this in mind when looking at the decision to grant the loan.

Looking at what happened when Miss H applied for the loan, I can see that on her application she said she had a monthly income of around £1,900. I think allowing for the state benefits she was receiving each month – averaging out at about £1,000 – the total income figure was likely to have been higher. 118 118 says she was asked to give details about her spending but I can't see that she included anything about this in her application – and this absence appears to have been accepted by 118 118.

I can also see that 118 118 ran checks with credit reference agencies - which would have helped to establish her indebtedness with other lenders. At this point Miss H owed around £2,600 on credit. She'd had issues making payments on several accounts as well a default reported in the previous 12 months. I can't see what else it did to find out about Miss H's financial situation, including what she was spending on her regular non-credit related commitments. Given that Miss H had been having issues with managing her existing credit, I think there was a risk that she might not have been able to consistently repay the loan. So 118 118 needed to check that Miss H would be able to afford to repay the agreement and that she was in a position to do that sustainably throughout its term.

Our investigator asked Miss H to provide us with copies of further information and I can she has provided us bank statements as well as details of her monthly salary. I think it would have been proportionate for 118 118 to have similarly taken steps to verify Miss H's financial circumstances in some way. In the absence of anything else, I've reviewed three months of bank statements leading up to the lending decision. I think this gives a good indication of what 118 118 would likely have discovered if it had tried to verify Miss D's expenditure in some way.

The statements show it's likely that, after allowing for her committed expenditure each month, including housing, travel and food costs, Miss H appeared to have had enough disposable income to make regular, sustainable repayments towards the new credit facility. Had 118 118 completed proportionate checks, I think it's likely it would have discovered this too. It therefore didn't act unfairly by agreeing to lend to her.

I realise this outcome will be a source of frustration to Miss H. But I can't make a finding that she has lost out due to taking out the loan if the available evidenced and information doesn't support it.

It follows that I'm not persuaded that I've seen enough to say 118 118 acted unfairly in approving the loan. So I don't think it needs to do anything to put things right.

I am sorry to have to disappoint Miss H on this occasion, especially given the difficult personal circumstances she has told us about. I would though wish to remind 118 118 of its obligation to seek to come to an appropriate arrangement with Miss H for the repayment of the loan that remains outstanding. This includes using forbearance where it is possible and reasonable to do so.

My final decision

Madison CF UK Limited trading as 118 118 Money has already made an offer to settle the card complaint in the sum of £981.82, which I understand has now been paid. The offer it has made is in line with our approach and is fair in all the circumstances.

I am not upholding Miss H's complaint about the loan. So Madison CF UK Limited trading as 118 118 Money doesn't need to do anything more in relation to the granting of the loan.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 14 June 2024.

Michael Goldberg
Ombudsman