

The complaint

Miss F has complained that Madison CF UK Limited trading as 118 118 Money (“Madison”) gave her a loan that she couldn’t afford to repay.

What happened

Miss F was granted one loan for £3,000 on 15 February 2022. Miss F was due to make 36 monthly repayments of £142.58. Miss F made her payments as expected to May 2023, when the payment was returned as unpaid. However, the statement of account suggests the loan was settled in full on 23 May 2023.

Following Miss F’s complaint Madison wrote to her explaining that her application had gone through an extensive affordability check which showed she’d be able to afford her monthly repayments. Unhappy with this response, Miss F referred the complaint to the Financial Ombudsman.

In our investigator’s assessment, he upheld Miss F’s complaint. He concluded the credit check results received by Madison before granting the loan as well as the loan value ought to have led it to conduct more thorough checks into Miss F’s finances. Had further checks been carried out Madison would’ve likely discovered that Miss F’s living costs were more than her income and so the loan was unaffordable for her.

Madison didn’t agree and in summary it said;

- The credit file only showed two defaults, but these were from 2018 and from when Miss F entered her IVA.
- Madison provided a summary of the 17 active accounts that it was aware of at the time. Only three credit cards and a motor insurance policy had a balance.
- Her credit file didn’t show any recent defaults, delinquencies, insolvencies, late payments, or outstanding payday loans. So, there wasn’t anything to have prompted further checks.
- The checks carried out were proportionate and showed Miss F could afford the loan.
- Miss F declared that she lived at home, and so that explains why she declared she didn’t pay rent or any household bills.
- Using Office of National Statistics (ONS) modelling it calculated that Miss F’s living costs were around £1,000 per month.
- Miss F had been discharged from the IVA in April 2021 – which was around a year before she applied for the loan.

The investigator explained why these comments hadn’t changed his mind about the outcome he’d reached. Therefore, the complaint has been passed to me to decide.

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.

Madison's final response also dealt with a credit card but that is being investigated by the Financial Ombudsman under a different complaint reference. This complaint will solely deal with the loan.

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.

The rules and regulations in place required Madison to carry out a reasonable and proportionate assessment of Miss F's ability to make the repayments under the loan agreement. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower-focused" – so Madison had to think about whether repaying the loan would be sustainable. In practice this meant it had to ensure that making the repayments wouldn't cause Miss F undue difficulty or significant adverse consequences. That means she 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 she had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on her financial situation.

In other words, it wasn't enough for Madison to simply think about the likelihood of it getting its money back - it had to consider the impact of the loan repayments on Miss F. 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 Miss F. 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 Miss F's complaint.

I'm sorry to hear about the impact this loan has had on Miss F's health, I do hope things have improved for her.

Miss F was asked to provide details of her income and she declared this to be £1,772 per month. It isn't clear whether Madison verified her income, but for her first loan, I think it would've been just about reasonable for it to have relied on what it was told.

Based on a document provided by Madison it seemed that apart from Miss F's declared income she didn't declare any outgoings. However, Madison says that it used data from her credit report (which I'll come on to below) as well as using averages and figures provided by the ONS.

In Miss F's complaint it assessed her affordability based on monthly outgoings of £1,203.43. So even with the loan repayment of around £143 per month Miss F had sufficient disposable income to afford the repayment.

The application data provided by Madison showed Miss F declared zero for outgoings and Madison said it used ONS averages to show the loan was affordable, I do have concerns around the use of the ONS data – because while it may have given Madison an average for Miss F's living costs – it has already said some of these costs may have been lower because she lived at home. I do think in the circumstances it would've been prudent to have understood what Miss F's outgoings actually were.

I think it would've been proportionate for Madison to have made further enquires with Miss F to establishing, what if any living costs she had each month (beyond the credit commitments) and relying on the ONS data.

Madison, as part of its affordability assessment carried out a credit search and it has provided the Financial Ombudsman with a summary of the results it received from the credit reference agency. I want to add that although Madison carried out a credit search there isn't a regulatory requirement to do one, let alone one to a specific standard. But what Madison needed to do was consider the results it was given.

Based on the credit check results it knew Miss F had around £4,600 of existing debt. Although Madison was told that Miss F had 17 active accounts the majority of the accounts didn't have a balance. Miss F had three credit cards owing £4,215. She also had a motor insurance policy costing her £74 per month.

While Madison was told about two defaults, these both appeared to have occurred in 2018 which considered with the IVA that Madison was aware of as well. The credit file told Madison that the IVA was discharged in May 2021, so a year before the loan was advanced.

However, as I've said above, I do have concerns with the lack of living costs declared even though Madison may have used ONS data, given the IVA that was seen in the credit check results as well as the term of the loan and the loan value (and cost of the loan) ought to have led to further checks being conducted.

Miss F has now provided us with evidence of her financial circumstances at the time she applied for this loan. Of course, I accept different checks might show different things and just because something shows up in the information Miss F has provided, it doesn't mean it would've shown up in any checks Madison might've carried out.

But in the absence of anything else from Madison showing what this information would have shown, I think it's perfectly fair, reasonable and proportionate to place considerable weight on what this information says as an indication of what Miss F's financial circumstances actually were at the time.

The information provided shows her income was broadly accurate but her outgoings each month exceeded her income when considering her rent, the cost of the direct debits that were taken each month, loan repayments to family and an ex-partner totalling £800 per month. Overall, her existing living costs and other commitments meant Miss F wasn't able to take on this loan.

As this is the case, I think that proportionate checks are likely to have shown Madison that Miss F was unlikely to be able to afford the payments to this loan, without undue difficulty or borrowing further. So, I'm satisfied that reasonable and proportionate checks would more likely than not have shown Madison that it shouldn't have provided this loan to Miss F. As

Madison provided Miss F with this loan, notwithstanding this, I'm satisfied it failed to act fairly and reasonably towards her.

Putting things right

Having thought about everything, Madison should put things right for Miss F by:

- removing all interest, fees and charges applied to this loan from the outset. The payments Miss F made, whether to Madison directly or any third-party, should be deducted from the new starting balance – the £3,000 originally lent. If once all adjustments have been made this shows that Miss F has made overpayments, these overpayments should also be refunded to Miss F together with interest at 8% simple a year from the date they were made by Miss F to the date of settlement†
- if once all adjustments have been made this shows that Miss F still has an outstanding amount to repay, Madison should contact Miss F to arrange a suitable repayment plan. Miss F is encouraged to get in contact with and cooperate with Madison to reach a suitable agreement for this.
- if no outstanding balance remains after all adjustments have been made then Madison should remove any adverse information it recorded on Miss F's credit file.

† HM Revenue & Customs requires Madison to take off tax from this interest. Madison must give Miss F a certificate showing how much tax it has taken off if she asks for one.

My final decision

For the reasons I've outlined above, I am upholding Miss F's complaint.

Madison CF UK Limited trading as 118 118 Money should put things right for Miss F as directed above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss F to accept or reject my decision before 6 June 2024.

Robert Walker
Ombudsman