

The complaint

Mrs K complains that Madison CF UK Limited, trading as 118 118 Money ("Madison"), lent to her irresponsibly. Mrs K said:

'I feel that they did not check that I could actually afford to pay back both the loan...because if they did then they would see that I only earn about £1,000 a month and I also received universal tax credits.'

What happened

This final decision follows my provisional decision, issued to both parties on 16 August 2023. The reply date was today – 30 August 2023 – and as I've received an acknowledgement from Madison and no response from Mrs K then it seems fair and reasonable to issue the final decision in the same terms as the provisional decision. That is what I have done.

Mrs K took one loan with Madison for £4,500 on 3 August 2022. The interest to pay was £4,406.40 and the loan term was 60 months. Mrs K had to repay £148.44 each month. After Mrs K had complained, Madison issued its final response letter (FRL) in which it explained that it used the application form submitted by Mrs K as a starting point. It carried out a credit search to check on the outstanding credit commitments Mrs K had. To assess her expenditure Madison used additional information such as credit reference agency and industry verification checks plus reasonable 'average figures'.

It referred to the credit card application she had made as well. That had been approved on 29 July 2022 with a limit of £1,200 and as of 3 August 2022 Mrs K had not used that card and the balance was £0.

Madison did not uphold her complaint and Mrs K referred it to the Financial Ombudsman Service. One of our adjudicators considered that the total to repay for the loan was almost £9,000 over five years, and did not think that Madison had enough information about Mrs K's expenditure and outgoings to make a responsible lending decision. So, she upheld the complaint but Madison disagreed.

The unresolved complaint was passed to me to decide. After I had reviewed it I asked Mrs K for additional information as I considered I needed to see what it was that Madison would have likely discovered if it had carried out a full financial review of Mrs K's finances. Mrs K has said she will not send anything to us. Mrs K went on to say that she was mentally ill at the time she applied for this loan but sent no details to support that – I was sorry to read of it.

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.

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We've set out our general approach to complaints about unaffordable/irresponsible lending -

including all the relevant rules, guidance, and good industry practice - on our website.

Taking into account the relevant rules, guidance, and good industry practice, what I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are whether Madison completed reasonable and proportionate checks to satisfy itself that Mrs K would be able to repay in a sustainable way? And, if not, would those checks have shown that Mrs K would've been able to do so?

If I determine that Madison did not act fairly and reasonably in its dealings with Mrs K and that she has lost out as a result, I will go on to consider what is fair compensation.

The rules and regulations in place required Madison to carry out a reasonable and proportionate assessment of Mrs K's ability to make the repayments under this 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 and/or cause significant adverse consequences for Mrs K. In practice this meant that Madison had to ensure that making the payments to the loan wouldn't cause Mrs K undue difficulty or significant adverse consequences.

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 Mrs K. 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 several factors including – but not limited to – the circumstances of the Mrs K (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.

I think that a reasonable and proportionate check ought generally to have been more thorough:

- the lower a Mrs K'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 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 the arguments, evidence and information provided in this context and what this all means for Mrs K's complaint.

Before I issued my provisional decision earlier this month, I had asked for more information from Mrs K. Reading Mrs K's recent response to my request it appears that her financial and health situation deteriorated after she'd taken this loan. The details surrounding Mrs K's income and expenditure was detail I needed and I asked for it. Mrs K refused to send it me. Applying the FCA DISP rules which govern us, I can choose to proceed using the evidence I have. I issued my provisional decision and no further evidence has been received.

I appreciate that Madison used the monthly income it said she received which was £2,118. It said it verified that and it is likely that a salary of £1,000 a month plus Universal Credit

income may have amounted to that. In the absence of any other information to the contrary, and considering Madison said it verified the income then I have proceeded with that income figure.

Madison carried out a credit search and my view is different to that of our adjudicator. The overall debt that credit search revealed was around £16,000. A large part of that was £11,599 left to pay on a hire purchase (HP) agreement which was costing Mrs K £362 each month. And a HP agreement is not classified as a high-cost credit loan.

Over and above that Mrs K had £2,444 on a mail order account and that was within its limit of £3,000. Mrs K had some credit cards and the total balance on all revolving credit accounts (which is the category of consumer credit into which credit cards fall) was £2,331. This is not a high figure. Her balance-to-loan ratio was relatively low.

Using this information Mrs K had around £239 a month to pay the minimum repayments on all the revolving and mail order credit (using 5% to calculate the sum), plus the HP cost of £362. These *plus* the Madison loan would have amounted to £750 a month and that would have been around 35% of her declared and verified income.

I appreciate that this was a proportion of Mrs K's income but on its own, with no other information indicating that Mrs K was in some sort of financial trouble, I do not consider it enough to decide that Madison was irresponsible in its decision to approve the loan. That 35% figure may have been above average but I do not consider it a reason for Madison to have refused the loan.

The credit search did reveal some historic defaults and I note that one of them (all credit cards) had a balance of £34 left to repay, one had been settled in May 2019 and the other was being paid down – the balance at that time was around £304. So, these were either historic or had been, or were in the process of being, settled.

There were no indications of any insolvencies and no records of any County Court Judgments (CCJs). Madison and lenders like it are used to applicants with adverse credit history and I do not consider that the scale of the adverse entries on Mrs K's credit search was such that it would have been the responsible move to refuse the loan.

It may well have been appropriate for Madison to have carried out a full financial review as it was a £4,500 loan over a 60 month term, but to come to a fair and reasonable outcome on this complaint, I would have needed to have identified what it was that Madison would have seen if it had carried out such a detailed assessment. I included this in my provisional decision issued two weeks ago. I have not received that information.

And so, it appears that Mrs K had enough income to afford the loan and had no particularly poor adverse entries on her credit file or any indications of any financial difficulties.

I do not to uphold the complaint.

My final decision

My final decision is that I do not uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs K to accept or reject my decision before 27 September 2023.

Rachael Williams

Ombudsman