

Complaint

Mr W has complained about a personal loan Madison CF UK Limited (trading as “118 118 Money”) provided to him. He says the loan was unaffordable and was therefore irresponsibly lent to him.

Background

118 118 Money provided Mr W with a loan for £1,000.00 in May 2023. This loan had an APR of 79.9% and a term of 24 months. This meant that the total amount to be repaid of £1,787.04, including interest, fees and charges of £787.04, was due to be repaid in 24 monthly instalments of just under £75.

One of our investigators reviewed Mr W’s complaint and she thought that 118 118 Money ought to have realised that it shouldn’t have provided Mr W with his loan. So she thought that Mr W’s complaint should be upheld.

118 118 Money didn’t respond to our investigator’s assessment. So the case was passed to an ombudsman for a final decision as per the next step of our dispute resolution process.

My findings

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We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Mr W’s complaint.

Having carefully considered everything I’ve decided to uphold Mr W’s complaint. I’ll explain why in a little more detail.

118 118 Money needed to make sure it didn’t lend irresponsibly. In practice, what this means is 118 118 Money needed to carry out proportionate checks to be able to understand whether Mr W could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

118 118 Money says it agreed to Mr W's application after he provided details of his monthly income. It says it cross-checked this against information on a credit search it carried out and also estimated Mr W's living costs. In its view, all of this information showed Mr W could afford to make the repayments he was committing to. On the other hand, Mr W has said he shouldn't have been lent to.

I've carefully thought about what Mr W and 118 118 Money have said.

I can to some extent understand why 118 118 Money might argue that the relatively low monthly payments on this loan meant that a lighter touch affordability assessment was reasonable and proportionate here.

However, while I do acknowledge that the monthly payments here were low, I'm concerned that 118 118 Money's own checks showed that Mr W was significantly indebted (with balances close to his existing credit limits). In my view, this called into question the disposable income amount, of over £1,200.00 a month, it concluded Mr W had left after the repayments to this £1,000.00 loan. Indeed 118 118 Money's checks also shows that Mr W was regularly only ever making the minimum repayments to his commitments too.

Furthermore, I'm also mindful that the notes provided and what Mr W has said both indicate that Mr W's application was initially declined. It's unclear to me why Mr W's application was then later accepted. But, in these circumstances, I think that 118 118 Money needed to find out more about Mr W's actual income and expenditure before determining that the payments for this loan were affordable for him.

I'm satisfied that if 118 118 Money had found out more about Mr W it would have seen that he was struggling to manage his existing commitments and why this was the case. So I think that proportionate checks would have shown 118 118 Money that Mr W was already struggling and this meant that he was unlikely to be able to repay this loan without borrowing further or suffering significant adverse consequences.

As this is the case, I do think that Mr W's existing financial position meant that he was unlikely to be able to afford the repayments to this loan, without undue difficulty or borrowing further. And I'm satisfied that reasonable and proportionate checks would more like than not have shown 118 118 Money that it shouldn't have provided this loan to Mr W.

As 118 118 Money provided Mr W with this loan, notwithstanding this, I'm satisfied it failed to act fairly and reasonably towards him. Mr W ended up paying and is still being expected to pay interest, fees and charges on a loan he shouldn't have been provided with. So I'm satisfied that Mr W lost out because of what 118 118 Money did wrong and that it should put things right.

I understand that Mr W now has a further dispute regarding what 118 118 Money has reported to credit reference agencies. The investigator has already told Mr W what he needs to do in relation to this matter and my direction below relates solely to putting things right in relation to, what I've found to be, 118 118 Money's unfair decision to provide Mr W with his loan in May 2023.

Fair compensation – what 118 118 Money needs to do to put things right for Mr W

Having thought about everything, 118 118 Money should put things right for Mr W by:

- removing all interest, fees and charges applied to Mr W's loan from the outset. The payments Mr W made, whether to 118 118 Money or any third-party debt purchaser, should be deducted from the new starting balance – the £1,000.00 originally lent. If

Mr W paid more than £1,000.00 then 118 118 Money should treat any extra as overpayments. And any overpayments should be refunded to Mr W;

- adding interest at 8% per year simple on any overpayments, if any, from the date they were made by Mr W to the date of settlement†
- if no outstanding balance remains after all adjustments have been made, 118 118 Money should remove any adverse information it recorded about this loan from Mr W's credit file.
- If an outstanding balance remains after all adjustments have been made, 118 118 Money should agree a suitable plan with Mr W for this amount to be repaid. Mr W is encouraged to get in touch with and cooperate with 118 118 Money for this to be done.

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

My final decision

For the reasons I've explained, I'm upholding Mr W's complaint. Madison CF UK Limited should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 19 January 2024.

Jeshen Narayanan
Ombudsman