

The complaint

Miss D complains that Madison CF UK Limited, trading as 118 118 Money ("Madison"), lent to her irresponsibly.

What happened

Miss D borrowed from Madison twice and the brief loan table gives details. I've rounded the figures for ease of reading.

Loan	Approved	Amount	Repayments (rounded)	Repaid	status
1	14 July 2021	£2,000	£99 x 30 months	29 December 2021	Repaid early
2	15 January 2022	£3,000	£130 x 36 months	-	Debt assigned 23 February 2024

Miss D complained to Madison about both loans in July 2023. It did not issue a final response letter (FRL) and wrote to her to say she could refer her complaint to the Financial Ombudsman Service without the FRL.

Having approached a third party debt charity, Miss D was given the benefit of a formal Breathing Space Scheme for loan 2 between 12 September 2023 and 11 November 2023.

Miss D referred her complaint to the Financial Ombudsman on 10 September 2023. She'd sent to us two copies of the two loan agreements for July 2021 and January 2022.

One of our investigators asked Madison for details surrounding the loans. It sent to us details of loan 2 and information about credit card agreements it had with Miss D. No information was sent to us about loan 1.

Credit cards are not part of this complaint. Three of Miss D's cards were held with Madison. Any issues Miss D may have about the Madison credit cards will need to be part of a new complaint. So, I have not looked at those details.

Our investigator issued her view about loan 2 in December 2023. It was a view in which she thought that Miss D was having difficulty managing her finances and was overindebted. She thought that Madison should put things right for Miss D.

Madison responded on 27 December 2023 to say it did not agree with the outcome and asked for an ombudsman to review the complaint. Miss D was content with the outcome.

I received the complaint in early April 2024 and having reviewed it made it clear to Madison that I needed the information surrounding loan 1 as well about which we had nothing.

Initially Miss D wanted to leave the complaint just covering loan 2. And although I had seen Miss D's responses about not investigating loan 1, I considered it fair and reasonable to review both as Miss D's complaint was originally about both loans. Miss D's concerns

surrounded time delay, but Madison expedited the request from me to receive the loan 1 details. I received them soon before I issued my provisional decision.

On 24 April 2024 I issued a provisional decision in which I gave reasons why I planned to uphold Miss D's complaint about both loans. That is duplicated here and forms part of this final decision.

My provisional decision dated 24 April 2024

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 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 Miss D would be able to repay in a sustainable way? And, if not, would those checks have shown that Miss D would've been able to do so?

If I determine that Madison did not act fairly and reasonably in its dealings with Miss D 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 Miss D'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 Miss D. In practice this meant that Madison had to ensure that making the payments to the loan wouldn't cause Miss D 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 Miss D. 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 circumstances of the Miss D (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 Miss D'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 Miss D's complaint.

Loan 1

Madison has sent me details surrounding Miss D's first loan creditworthiness assessment.

I've rounded the figures for the purposes of this decision. It had her income as £2,012 each month and her outgoings as: mortgage/rent £294, other outgoings £557, and repayment towards her credit commitments £870.

It calculated that Miss D's disposable income was £291 which mean that after the monthly loan 1 repayment of just under £99 was factored in, Madison considered Miss D would have had £192 left each month.

I have seen the Credit Reference Agency (CRA) report it obtained in July 2021 and going through that I can see from where Madison obtained its credit commitment cost figure. Miss D had two loans for which she was paying £264 and £176 each month (£440 total). In addition, Miss D had seven credit cards of which it seems three were with Madison. That total credit card debt was £8,594. At 5% of the total debt that would have equalled around £430 each month which added together amounted to £870.

I see from that CRA report that Miss D had been paying the minimum payments to the cards for a long time. Added to which, Madison would have been well aware of her management of several of the cards as she was its customer for cards as well. She was close to her overall revolving credit limit (which includes credit cards) at 91%. Miss D had been using her credit card for cash withdrawals which usually can be taken as one sign pointing towards financial pressure in her life.

I have seen the CRA 2016 entry for a County Court Judgment (CCJ), but due to the age of it I doubt that would have influenced Madison when considering her application in 2021. I mention it for completeness.

On Madison's own calculations and using its own spreadsheet, Miss D's percentage net income used to pay for credit commitments, excluding the £99 needed for loan 1, was 43%. This was a high percentage in my view. And I have seen from Madison's own records it had calculated that same figure so it was aware of this.

This percentage would have increased with the Loan 1 commitment. Miss D had been making little or no inroads into her credit card debt for months and with a further credit commitment of a new loan for 30 months she was unlikely to be able to make any inroads into her overall debt at all going forward.

I consider that Madison did the checks on Miss D's position and was in a unique position as she was also one of its credit card customers, and so knew her situation. And I say that because it has sent to us copies of CRA reports it appeared to have obtained before and at intervals in between the two loan applications. These likely were obtained by Madison when Miss D was applying for the credit cards. And shows it had information about her credit situation since 2018.

Loan 1 ought not have been approved for Miss D as I do not consider that Miss D was likely able to support a 30 month repayment commitment based on the high level of credit commitments she was already carrying in July 2021.

I plan to uphold her complaint about loan 1.

Miss D paid Loan 1 off early. She has explained to us that she had to obtain other loans with other lenders to do this.

Loan 2

Within two weeks Miss D was reapplying to Madison for a larger loan of £3,000 spread over a longer term of 36 months. The planned repayments for this were just under £130 a month. Unless the information about Miss D's situation had radically improved by January 2022 then I consider that the same conclusion I have reached about Loan 1 will be appropriate for Loan 2.

I reviewed the information it had about Miss D when she applied for Loan 2. It had obtained a CRA report and I have reviewed it.

Miss D's overall debt had increased a little but had altered in nature. In January 2022 her loan debt was larger at just under £18,000 and her credit card debt had decreased to £3,115 with only a 24% 'balance to loan ratio' for that type of credit. Miss D had opened four new accounts in the previous six months. It's likely Miss D had been obtaining loans to repay the cards. Borrowing to repay debt is a sign of unsustainability.

Miss D had continued to use her credit cards for cash withdrawals and was still repaying the cards with minimum only repayments.

Reviewing the CRA I see she had taken two new loans in late November 2021 – one for almost £11,000 and the other for £3,000. This was just a month before Christmas and before Miss D repaid the first Madison loan. She'd taken another loan in August 2021 for £3,175, just a month after taking out Loan 1.

The overall picture received of Miss D's situation when she applied for Loan 2 in January 2022 was one of a person juggling new credit and old debt.

I do not consider that Miss D was likely able to support a 36 month repayment commitment based on the high level of credit commitments she was already carrying in January 2022. And using the information Madison already had available to it, I think that it ought to have seen that and decided not to lend.

I plan to uphold the complaint.

This is the end of the provisional 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.

Both parties were given time to respond. Neither has responded. So, I have no reason to depart from my earlier findings. And having reviewed it all I have decided to uphold the complaint for the same reasons.

Putting things right

I am aware that Loan 1 has been repaid and Loan 2 remains outstanding. Madison recently assigned the Loan 2 debt despite being aware that it had asked an ombudsman to review this complaint and so it remained unresolved at the point at which it assigned that debt. So, Madison needs to buy back that debt from the third party and absorb any fees involved, then put things right for Miss D by doing as follows:

- remove all interest, fees and charges applied to the Loans,
- treat any payments made by Miss D as payments towards the capital amounts,
- if Miss D has paid more than the capital then any overpayments should be refunded to her with 8%* simple interest from the date they were paid to the date of settlement,
- but if there's still an outstanding balance, Madison should come to a reasonable repayment plan with Miss D.
- remove any adverse payment information about the loans from Miss D's credit file.

Madison is entitled to offset the refund sums due to Miss D against the debt that she owes to it. This needs to be factored into the redress calculations.

* HM Revenue & Customs requires Madison to take off tax from this interest. It must give Miss D a certificate showing how much tax it's taken off if she asks for one.

My final decision

My final decision is that I uphold the complaint and I direct that Madison CF UK Limited, trading as 118 118 Money, does as I have outlined in the 'putting things right' section of the final decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 5 June 2024.

Rachael Williams
Ombudsman