

Complaint

Mrs G has complained about personal loans Madison CF UK Limited (trading as “118 118 Money”) provided to her.

She says that the loans were unaffordable and so shouldn’t have been provided to her.

Background

118 118 Money initially provided Mrs G with a first loan for £3,500.00 in July 2019. The loan had an APR of 79.9% and the total amount to be repaid of £6,015.36, which included interest, fees and charges of £2,515.36, was due to be repaid in 24 monthly instalments of just over £250. This loan was settled early with some of the proceeds from loan 2.

118 118 Money then provided Mrs G with a second loan for £4,620.40 in January 2020. £3,020.40 of the proceeds from this loan went towards settling the outstanding balance on loan 1. This loan also had an APR of 79.9% and the total amount to be repaid of £7,823.28, which included interest, fees and charges of £3,202.88, was due to be repaid in 24 monthly instalments of just over £325.

118 118 Money then provided Mrs G with a third loan for £3,132.61 in February 2021. It is my understanding that this loan was provided in order for Mrs G to consolidate the outstanding balance on loan 2 have and have a three-month payment freeze. This loan also had an APR of 79.9% and the total amount to be repaid of £4,991.55, which included interest, fees and charges of £1,858.94, was due to be repaid in 15 monthly instalments of £332.77.

One of our adjudicators reviewed Mrs G’s complaint and she didn’t think that she had enough to be able to say that proportionate checks would have prevented 118 118 Money from providing Mrs G with these loans. So she didn’t think that Mrs G’s complaint should be upheld.

Mrs G disagreed with our adjudicator’s assessment. So the case was passed to an ombudsman as per the next step of our dispute resolution process.

My provisional decision of 2 November 2023

I issued a provisional decision – on 2 November 2023 - setting out why I intended to partially uphold Mrs G’s complaint. I won’t copy that decision in full, but I will instead provide a summary of my findings.

I started by explaining that 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 reasonable checks to be able to understand whether Mrs G 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.

I kept this in mind while provisionally deciding Mrs G's complaint.

Why I was not intending to uphold Mrs G's complaint about loan 1

The information 118 118 Money provided suggested that it carried out credit checks before Mrs G's loans were provided. The checks carried out before Mrs G was provided with loan 1 showed that she did have some existing unsecured debt at the time of the application. But this was low in comparison to her declared income. Crucially, according to the credit searches, Mrs G's commitments at the time were being relatively well maintained.

I did accept that Mrs G's actual circumstances may not have been fully reflected either in the information she provided, or the information 118 118 Money obtained. Equally I also accepted that if 118 118 Money had gone into the depth of checks Mrs G appeared to be saying it should have – such as obtaining bank statements in the same way a mortgage provider would – it may have reached a different answer.

But the key here was that 118 118 Money wasn't providing Mrs G with a mortgage. It was providing a loan for a first loan in circumstances where, according to the information obtained at least, Mrs G's finances did not appear to be overly distressed. I thought that it was only fair and reasonable for me to uphold a complaint in circumstances where a lender did something wrong. Given the circumstances in this case, and the lack of obvious inconsistencies, I didn't think that reasonable and proportionate checks would have extended further.

As this was the case, I did not think that 118 118 Money had done anything wrong when deciding to provide loan 1 to Mrs G - it carried out proportionate checks and reasonably relied on what it found out which suggested the repayments to this loan were affordable. And this left me intending not to uphold the complaint about this loan.

Why I was minded to conclude that 118 118 Money shouldn't have provided loans 2 and 3 to Mrs G

The information 118 118 Money provided suggested that it also carried out credit checks before loans 2 and 3 were provided. The checks carried out before Mrs G was provided with loan 2 showed that Mrs G had had a number of missed payments in the period since loan 1 was provided.

She was also getting close to the credit limit on her revolving credit accounts and had only been making minimum payments for some time. Furthermore, Mrs G was returning for a second loan within months of her first and having barely reduced the outstanding balance on that loan. The position wasn't much better at the time of loan 3 either.

Given all of this, I thought that 118 118 Money ought to have obtained further information from Mrs G in order to have been able to make an informed decision on whether to provide loans 2 and 3 to her.

Furthermore, it was clear to me from the additional information I had seen that Mrs G's existing expenditure meant that she was always going to struggle to make the necessary payments to loans 2 and 3 – particularly in light of the proportion of the funds she was actually receiving, that would be taken up by these payments.

Overall and having considered everything, I was persuaded by what Mrs G has said about already being in a difficult financial position at the time she took out loans 2 and 3. While I accepted the possibility that Mrs G's difficulties reflected her choices rather than financial difficulty, I added that my experience of these types of cases suggest that this was unlikely. And in the absence of any reasonable or plausible arguments from 118 118 Money, I made it clear that I was persuaded to accept Mrs G's version of events in relation to these loans.

As this was the case, I thought that Mrs G's existing financial position meant that she was unlikely to be able to afford the payments to loans 2 and 3, without suffering adverse consequences or borrowing further.

I was also satisfied that reasonable enquiries into Mrs G's circumstances would more likely than not have shown 118 118 Money that it shouldn't have provided loans 2 and 3 to her. As 118 118 Money provided Mrs G with loans 2 and 3, notwithstanding this, I was minded to conclude that it failed to act fairly and reasonably towards her.

Mrs G had ended up paying and was still being expected to pay interest, fees and charges on loans she shouldn't have been provided with. So it was my intention to issue a final decision which concluded that Mrs G lost out because of what 118 118 Money did wrong and which directed it to put things right.

I concluded by setting out a method of compensation which I thought addressed 118 118 Money's shortcomings and Mrs G's resulting loss.

Responses to my provisional decision

Mrs G confirmed that she accepted my provisional decision and didn't provide anything further to me to consider.

118 118 Money confirmed that it did not intend to challenge my provisional decision and also said that it didn't have any further points for me to consider.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I set out in some detail why I intended to partially uphold Mrs G's complaint in my provisional decision of 2 November 2023. As neither party has challenged these conclusions and haven't provided anything further for me to consider, I see no reason to alter my conclusions.

So overall and having considered everything, I'm still partially upholding Mrs G's complaint and I still require 118 118 Money to put things right.

Fair compensation – what 118 118 Money needs to do to put things right for Mrs G

Having thought about everything, I'm satisfied that it would be fair and reasonable in all the circumstances of this case for 118 118 Money to put things right for Mrs G by:

- refunding all interest, fees and charges Mrs G paid on loan 2;
- adding interest at 8% per year simple on any refunded payments from the date they were made by Mrs G to the date of settlement†;
- removing all interest, fees and charges applied to loan 3 from the outset. The payments Mrs G made, whether to 118 118 Money or any third-party debt purchaser, should be deducted from the new starting balance – the £3,132.61 originally lent. If Mrs G has already paid more than £3,132.61 on this loan then 118 118 Money should treat any extra as overpayments. And any overpayments should be refunded to Mrs G. If an outstanding balance remains after all adjustments have been made, 118 118 Money can use any compensation due from loan 2 to reduce and/or clear the balance on loan 3.
- removing all adverse information it recorded on Mrs G's credit file as a result of loan 2. Any adverse information recorded as a result of loan 3 only needs to be removed should no outstanding balance remains after all adjustments have been made.

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

My final decision

For the reasons I've explained above and in my provisional decision of 2 November 2023, I'm partially upholding Mrs G'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 Mrs G to accept or reject my decision before 19 December 2023.

Jeshen Narayanan
Ombudsman