

The complaint

Mr L complains that Madison CF UK Limited trading as 118 118 Money unfairly recorded a default against him in relation to a loan account.

What happened

Mr L took out a loan with 118 in April 2019. The term of the loan was 24 months and the monthly repayment amount was £274.62.

During the pandemic, Mr L got in contact with 118 to let them know that he needed to make reduced repayments of £100, which was agreed for six months.

Mr L complains that 118 defaulted his account and reported the default to the credit reference agencies. Mr L says he wasn't aware that his account would default or that arrears would be recorded while he was still keeping up with the reduced repayments. He's said if he'd have been aware of this, he would have tried to make higher repayments at the time. Mr L feels that the default being recorded implies that he didn't keep up with payments at all – which wasn't the case.

An Investigator considered evidence from both parties, but they didn't uphold Mr L's complaint. Based on what they'd seen, the Investigator didn't think there was much prospect of Mr L being able to sustainably repay the loan taking into account the arrears that had built up and Mr L's financial position. And so they thought 118's decision to default the loan account was a fair one and inline with guidance issued by the Information Commissioner's Office (ICO).

Mr L didn't agree with the Investigator's view and asked for an Ombudsman's decision on the matter – so 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.

Having considered all of the available evidence, I'm sorry to disappoint Mr L, but I won't be upholding his complaint.

At the start of the pandemic, I can see Mr L contacted 118 to let it know he was having employment problems as a result of Covid 19, and he wanted to make reduced repayments of £100 per month. Mr L made these repayments as agreed. However, while the reduced repayments were being made, the account got into arrears because the full contractual repayment wasn't being met.

Because the account got into arrears, 118 decided to default the account. I've considered guidance issued by the ICO about when an account should default – this guidance states that an account should default when it is between three to six months in arrears. Mr L's account was defaulted within this time, so I can't fairly say 118 did anything wrong here.

118 has also explained that it didn't think it appropriate to refinance the loan to include the arrears given Mr L's financial position at the time. I think this is reasonable of 118. I can see it completed an income and expenditure assessment of Mr L's finances in June 2020. At this point, Mr L's outgoings were more than he had incoming, so it wouldn't have been fair or reasonable of 118 to set up another repayment plan or refinance the loan when it was aware that Mr L already couldn't afford his other commitments. 118 has to follow rules as a responsible lender, and so setting up another reduced payment plan or deferring arrears would have put further strain on Mr L's finances. Taking all of this into account, I don't think 118 acted unfairly when it defaulted Mr L's account.

I note Mr L says he wasn't aware that the account could default when he was in a repayment arrangement – and that he wasn't told this at the time – and if he had been told this, he would have tried to pay more. I can see notice of arrears letters were sent to Mr L. I can also see a default notice was also sent to Mr L on 10 August 2020, so I'm satisfied that 118 notified Mr L that his account was in arrears and could default. Even if I accept that Mr L wasn't told this when he took out the repayment plan arrears would continue to build, based on the income and expenditure form from June 2020, I don't think Mr L was in a position to be able to afford to pay anymore than what he'd agreed. So I think it likely the account would have defaulted regardless.

I can see Mr L is also unhappy that the default suggests he'd missed repayments when he had in fact made reduced repayments while on the plan. A default is when someone fails to meet certain financial obligations under an agreement. It is generally when the arrears have built up to an unacceptable level – which the ICO deems to be between three to six months. A default doesn't necessarily mean that payments had been missed. It could also be where the full contractual payment wasn't made for a number of months – which is the case here. I can't fairly conclude that by 118 defaulting the account it implies that Mr L had missed repayments – it just means that he didn't meet his obligations as set out in the loan agreement.

I accept that Mr L's situation has come about as a result of the employment difficulties he had during the pandemic – and I really do sympathise with his situation. But even in these circumstances, I don't find that 118 acted unfairly or unreasonably by defaulting his account.

My final decision

For the reasons set out above, I don't uphold Mr L's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 21 February 2024.

Sophie Wilkinson
Ombudsman