

The complaint

Mrs S complains that Madison CF UK Limited trading as 118 118 Money irresponsibly provided her with a credit card and increased the credit limit when she was unable to afford the repayments.

What happened

Mrs S was provided with a credit card by 118 118 Money on 9 February 2021. It had an initial limit of £1,200. She didn't use the card until November 2021. The credit limit was increased by 118 118 Money (i.e. not by her application) to £1,700 on 10 February 2022. She complained to 118 118 Money that it should never have issued the card to her. In 2021 she earned an income of £1,200 a month and said she had outgoings of over £3,300. Overall, she said she had debts of over £20,000. She also said that in February 2022 when 118 118 Money increased the limit it should have noticed that she was only making minimum payments and had markers for late payments.

118 118 Money pointed out that Mrs S had declared an income of £2,015 a month. It explained that its application was very detailed and it carried out a credit check when she took out the card and when the limit was increased. It pointed out that she had signed a declaration that her answers on the application form were true and accurate.

On referral to the Financial Ombudsman Service our adjudicator said that 118 118 Money should have done further checks on Mrs S's expenditure but without this information he couldn't uphold the complaint.

Mrs S provided bank statements for the months leading up to and including the dates of issue of the card and the credit limit increase. However our adjudicator said that the expenditure shown on the statements didn't show the card to be unaffordable. He pointed out that 118 118 Money wasn't required by the rules to review bank statements so it was reasonable for it to rely on Mrs S's statement regarding her income, even though the bank statements showed a much lower amount.

I issued a provisional decision. In it I said I didn't think that 118 118 Money should have issued the credit card or increased the limit.

Neither party responded to my provisional findings.

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.

My provisional findings are set out below in italics:

"Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- *Did 118 118 Money complete reasonable and proportionate checks to satisfy itself that Mrs S would be able to repay the credit advanced in a sustainable way?*
- *If not, would those checks have shown that Mrs S would have been able to do so?*
- *Bearing in mind the circumstances at the time of each application, was there a point where 118 118 Money ought reasonably to have realised it was increasing Mrs S's indebtedness in a way that was unsustainable or otherwise harmful and so shouldn't have provided further credit?*

issue of the card

At the time of Mrs S applying for the credit card 118 118 Money relied on a detailed application and a credit check to assess whether the credit was affordable to her. As far as I can see it didn't verify her income, which she said was £2,015 a month. Yet in the bank statements she has subsequently shown us this was actually around £1,200 a month. If she had declared this figure then the credit card would clearly have been unaffordable.

The credit report showed that Mrs S had four credit cards with total balances of around £1,260. One had three missed payments. She had a mail order account with a balance of £2,115, and her bank account was overdrawn by around £280. She also had a County Court Judgement (CCJ) against her in the sum of £2,224, which didn't appear to have any provision for payment. If I allow 5% payments of the balances on the credit cards and for the CCJ and mail order accounts, I calculate that she would have been paying around £550 and allowing for the minimum payment on the full amount of credit now being given to her this would still have been about 29% of the declared income, which in my view was high.

Bearing in mind her overdraft, the number of credit cards she already had and the fact that she had an undischarged CCJ, I think 118 118 Money should have carried out more investigation of her financial circumstances. And whilst 118 118 Money isn't required by the Consumer Credit (CONC) rules to consider bank statements, CONC 5.2.A.16 does state:

"For the purpose of considering the customer's income under CONC 5.2A 15R it is not generally sufficient to rely solely on a statement of current income made by the customer's without independent evidence."

I'm not persuaded in this case that it was sufficient to rely on Mrs S's own statement of what her income was, and that 118 118 Money would have been alerted to carry out more investigation of Mrs S's circumstances. And if 118 118 Money had verified her income, as I've set above it's most likely that the credit wouldn't have been affordable. So I don't think that 118 118 Money acted fairly in issuing the card.

increase in credit limit

Mrs S didn't use the card until November 2021 when she spent £1,113 in a month. I see from the credit report that she now had five credit cards with balances on them, including the 118 118 Money card and a card that was apparently issued on the same day which had a balance of £956. Her credit commitments had increased to around £930 a month though this allows a payment towards the CCJ which it looked like was still outstanding without any arrangement to pay. 118 118 Money didn't update Mrs S's income and expenditure, so it will have assumed it remained the same. But even allowing for an income of £2,015 a month Mrs S's credit commitments would still be over 46% of her income, and almost all of her actual income.

It goes without saying that if 118 118 Money shouldn't have issued the card it clearly couldn't

be increasing the credit limit. With the sort of figures mentioned even if Mrs S had approached 118 118 Money for a new credit card at this time it would have been clearly unaffordable.

So, I think 118 118 Money shouldn't have issued the credit card or increased the limit."

As neither party has responded to my provisional findings, those findings are now final and form part of this final decision.

Putting things right

As I don't think 118 118 Money ought to have opened the account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Mrs S should pay back the amounts they have borrowed. Therefore, 118 118 Money should:

- Rework the account removing all interest and charges that have been applied.
- If the rework results in a credit balance, this should be refunded to Mrs S along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. 118 118 Money should also remove all adverse information regarding this account from Mrs S's credit file.
- Or, if after the rework there is still an outstanding balance, 118 118 Money should arrange an affordable repayment plan with Mrs S for the remaining amount. Once Mrs S has cleared the balance, any adverse information in relation to the account should be removed from their credit file.

*HM Revenue & Customs requires 118 118 Money to deduct tax from any award of interest. It must give Mrs S a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

I uphold the complaint and require Madison CF UK Limited trading as 118 118 Money to carry out the remedy set out under "Putting things right".

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 4 January 2023.

Ray Lawley
Ombudsman