

## **The complaint**

Mr L complains that Madison CF UK Limited trading as 118 118 Money irresponsibly issued a credit card to him, which he couldn't afford the repayments on.

## **What happened**

In July 2019 Mr L successfully applied to 118 118 Money for credit card. This was issued to him, with a credit limit of £250. The limit wasn't increased.

Mr L complained that he couldn't afford the repayments on the card as he had large amounts of debt already from multiple lenders. He was spending substantial sums on gambling and already had substantial debts. He couldn't even afford to pay the monthly £3 subscription (the payment for running the account)..

118 118 Money said that Mr L was taken through extensive questions as part of the application to ascertain his circumstances. Once an application is submitted it is reviewed by its system and assessed against its scorecard. It uses industry standard verification checks to validate the information provided by the applicant on the application. It was satisfied that it acted correctly in approving Mr L's application.

On referral to the Financial Ombudsman Service our Adjudicator ultimately found that 118 118 Money had acted reasonably in providing Mr L with the credit card, and that the review of Mr L's circumstances showed that he had, at the time of the application, sufficient disposable income to pay any payment due on the credit card.

Mr L disagreed. He pointed out that around the time of the application he had just taken out several other loans. He said that a loan for which he was paying £462 a month was still outstanding at the time of his application and hadn't been taken account of. He pointed out that just before granting his application for a credit card, 118 118 Money had turned him down for a loan. He further said that his bank account showed that he was paying out substantial amounts on gambling.

The matter has been passed to me for further consideration.

## **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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've taken that approach into account in considering Mr L's complaint.

So, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks a lender is required to carry out, but it needs to ensure the checks are proportionate when considering things like: the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances. As a lending relationship continues over time and

the level of credit increases, lenders may need to obtain further information from a borrower to check whether they're lending responsibly and that the repayments are sustainable for the customer.

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 Mr L would be able to repay the credit advanced in a sustainable way?
- If not, would those checks have shown that Mr L would have been able to do so?

118 118 Money carried out a credit check at the time of Mr L's application – it also considered the information supplied to it by Mr L as to his circumstances. Whilst Mr L has shown us statements and other credit checks, it's reasonable that I take into account the figures 118 118 Money used, as shown in its check.

As I've said, the checks needed to be reasonable and proportionate. The credit limit was set at £250 on the credit card issued to Mr L. That was a low figure, so 118 118 Money had to consider whether, if Mr L spent the maximum on the card, he could afford a minimum monthly payment of 5% of the outstanding balance. This is higher than the actual minimum payable in the agreement but we take the view that a minimum of 5% each month is reasonable.

Mr L declared a monthly income of £2,259. That appears to be realistic from looking at his bank statements. He lived with his parents and declared monthly expenses of £396. 118 118 Money calculated that he had to make monthly payments of £732 for his loans and credit payments, leaving him with a disposable income of around £1,021 a month. On the basis that the credit search 118 118 Money had carried out showed it that he wasn't at the time in arrears or default on any of his debts, 118 118 Money assessed that he could afford the payments on the card.

I think 118 118 Money underestimated the amount Mr L had to pay out on credit. Using a 5% payment for revolving debt (credit cards/accounts), and using the figures shown in 118 118 Money's credit check, my calculations for Mr L's monthly payments are:

Loan	£250
Credit card 1	£181
Credit card 2	£ 15
Credit card 3	£270
Bank overdraft	<u>£ 50*</u>
Total	£766

\*Mr L says he was paying this amount.

Mr L declared other monthly expenses of £396. If I were to assess that as being too low, using a figure of 35% (as per the average set out by the Office for National Statistics) of his income this comes to £790 a month. And with the monthly rent payment of £110, Mr L would still have had a monthly disposable income of £594.

Mr L clearly had a high amount of credit debt: of the three credit cards two were near the limit and one (the smallest balance) just over the limit. I've noted that his bank account was overdrawn by £750, though this was something that had happened fairly recently. The loan for which Mr L said he was paying £462 had a nil balance showing on the credit check.

I think, bearing in mind the level of credit applied for, that 118 118 Money carried out reasonable and proportionate checks. It could only act on the basis of the information it saw from the credit check and Mr L's application. So, although he had recently taken out other loans, none of those loans had shown up on the credit check. And the reason that these may not have shown up may well have been because they had been approved and taken by Mr L in close proximity to applying for this credit card with 118 118 Money. Credit reference agencies can take 60 days (often more) to update. So although he had recently taken out other loans, none of those loans showed on the credit check, so it was up to him to declare them.

I've considered whether the checks 118 118 Money carried out should have led it to carry out further checks, like considering bank statements. As the statements showed considerable monthly sums spent on gambling it seems likely that Mr L would have been refused credit had 118 118 Money known this information (which he didn't disclose). But I don't think that checking the bank account would have been proportionate. Although the bank statements showed a recent overdraft Mr L appeared to have plenty of disposable income to afford the low level of monthly payment that would have been due on the card.

I've noted that, shortly before being issued with the credit card, Mr L was refused a loan by 118 118 Money. He has sent us copy of the refusal, but I don't know the details of the application, particularly how much Mr L applied for. Different criteria would be used when deciding on a loan. It does highlight that Mr L had a high level of credit which might have been a bar to a loan but not to a credit card with a low credit limit.

I've noted that the credit check showed several recent searches. There's no indication on the face of the check that those searches led to a loan or other credit. And again bearing in mind that the checks need to be reasonable and proportionate, I don't think that the fact of those searches should have led to further enquiries. This is again bearing in mind the amount of credit being supplied.

### **My final decision**

I don't uphold the complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 28 July 2023.

Ray Lawley  
**Ombudsman**