

The complaint

Mr H complains that Madison CF UK Limited ("Madison"), trading as 118 118 Money, irresponsibly granted him a credit card account he couldn't afford to repay.

What happened

Mr H entered into an agreement with Madison to have access to credit with a card account that was opened for him in November 2019. The account had an opening credit limit of £500. There then followed two credit limit increases, in October 2020 up to £1,500 and then in October 2021 up to £2,500.

Mr H says that Madison didn't complete adequate affordability checks when it opened his account. He says that had it done so, Madison would have seen he had a history of debt issues.

Madison didn't agree. It said that it carried out a reasonable and proportionate assessment to check and validate Mr H's financial circumstances before granting him the account and both of the credit limit increases.

In my provisional decision dated 30 June 2023 I explained why I was intending to partially uphold this complaint. I set out an extract below:

"Mr H says that during the time he had the card he was in constant debt and had got into a cycle of borrowing.

Before granting the opening credit to Mr H, Madison carried out a credit check that included looking at his income and using statistical data to estimate what his monthly committed expenditure and outgoings might be. Based on that, Madison worked out whether the lending was affordable. From what I've seen, I think Madison gathered a reasonable and proportionate amount of evidence and information from Mr H about his ability to repay the opening credit limit he was given on his account. The checks showed that Mr H already had around £37,000 in unsecured borrowing and ongoing credit commitments, much of it short term high cost lending. Whilst this is a substantial amount of debt to be managing, Mr H's recent credit history appeared to be satisfactory, with no recent adverse markings on his credit file.

There isn't a set criteria for what a proportionate check ought to encompass. Given that Madison was proposing to give Mr H an opening limit of £500, I don't think it was necessary for it to verify Mr H's income or ask about his other committed expenditure (outside of the existing credit commitments the credit check would have shown). Having said that, I think the level of existing borrowing, although there had not been any recent defaults or significant arrears on his credit file, suggests to me that it would have been proportionate to find out more about Mr H's typical monthly expenditure. Given that Mr H's bank statements showed he was receiving a net monthly income of somewhere between £3,200 and £4,200 and that he was being granted a manageable initial credit limit, I don't think proportionate

checks would have been likely to review any major concerns about affordability at this point.

Turning to the two credit limit increases, I've seen that whilst Mr H's income remained broadly consistent, he was continuing to make regular use of high cost borrowing. Madison's own credit check estimated he would have around £800 remaining by way of disposable income for the first increase and around £600 by the time of the second increase.

Mr H's bank statements from before the first credit limit increase support that he was continuing to rely heavily on high cost lending. The total amounts he was borrowing each month varied from just under £1,000 to just over £2,500. I've also noted he was taking out much larger loans from time to time, possibly for consolidation purposes. I've seen that one of these loans, for £5,000, was taken out in September 2020 with Madison, shortly before Mr H was granted his first credit limit increase. I should add that in September 2021, shortly before being granted his second credit limit increase, Mr H took out another loan, for £9,000, this time with a separate provider.

Although I recognise that the lending criteria for a loan would be different to that of a credit card, the credit check Madison carried out before granting the £5,000 loan in September 2020 shows that Mr H now owed around £40,000 in unsecured credit, having 20 active credit accounts. Whilst it may well be that on the face of things Mr H was able to juggle his finances so that he was able to meet his credit and regular living expenses apart from his credit commitments, such as food, housing costs and utilities, this was taking place against a background of excessive high-cost borrowing. Had Madison taken reasonable and proportionate steps to gain a better idea about Mr H's overall financial situation, it would have seen that Mr H's level of indebtedness was therefore worsening.

It follows that I don't think the checks Madison carried out at the time of granting the first credit limit increase were enough.

I therefore currently think that had Madison carried out further reasonable and proportionate checks, these most likely would have shown that Mr H could not afford the two credit limit increases he was granted."

Madison confirmed that it accepted the findings in my provisional decision and therefore did not intend to provide any further evidence.

Mr H has also accepted my provisional decision. However, he has pointed out that his redress should also include any interest and charges incurred following his credit limit increase to £2,500 in October 2021. The redress I set out in my provisional decision and here in this final decision provides for that, but I am happy to confirm that to be the case.

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.

Given that both Mr H and Madison accepts my provisional findings and there is no additional evidence to consider, I am partially upholding this complaint on the same basis as my provisional decision. This means that the redress I set out below will apply to all credit limit increases that followed the initial opening credit limit of £500.

Putting things right – what Madison needs to do

Madison shouldn't have increased Mr H's credit limit from £500 to £1,500 in October 2020, or from £1,500 to £2,500 in October 2021. Madison therefore needs to do the following:

- Rework Mr H's account to ensure that all interest and charges should be removed from the account for balances over £500, being the previous credit limit increase. All late payment and over limit fees should also be removed; and
- If an outstanding balance remains on the account once these adjustments have been made, Madison should contact Mr H to arrange an affordable repayment plan for the account. Once Mr H has repaid the outstanding balance, it should remove any adverse information recorded on Mr H's credit file from October 2020 onwards.

OR

- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Mr H, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. Madison should also remove any adverse information from Mr H's credit file from October 2020 onwards.

†HM Revenue & Customs requires Madison to take off tax from this interest. Madison must give Mr H a certificate showing how much tax it's taken off if he asks for one.

My final decision

For the reasons I've given, my final decision is to partially uphold this complaint and to require Madison CF UK Limited to pay compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 25 August 2023.

Michael Goldberg

Ombudsman