

The complaint

Mrs M complains that Madison CF UK Limited trading as 118 118 Money ("118 118") irresponsibly agreed a credit card facility for her.

What happened

118 118 opened a credit card facility with a limit of £800 for Mrs M in April 2022. Mrs M went over her account limit in April 2023. She met her repayments until May 2023, when a direct debit was returned.

Mrs M complained to 118 118 that the credit was unaffordable and it had been irresponsibly agreed. She said she had several loans, credit cards and catalogue debts when 118 118 opened the account for her and that she didn't have enough money to meet all her debt repayments and her living costs.

118 118 didn't uphold Mrs M's complaint. It said that the lending and its checks met the relevant regulatory obligations and requirements in place at the time of the application, in addition to its internal lending policies. Nevertheless, 118 118 offered Mrs M a goodwill payment of £1,832.56 in full and final settlement of her complaint.

Mrs M didn't accept this offer and referred her complaint to us. Our investigator looked into the complaint and didn't recommend that it be upheld. They concluded that 118 118 should have looked into Mrs M's circumstances further before lending to her but would have continued with its offer of credit because the checks wouldn't have revealed any concerns.

Mrs M didn't agree with this recommendation and asked for the complaint to come to an ombudsman to review and it came to me. I issued a provisional decision on 12 January 2024 explaining why I thought Mrs M's complaint should succeed. I allowed time for either party to send me any comments or new information to consider when making my final decision. Mrs M accepted my provisional decision and 118 118 hasn't provided anything further.

My decision deals solely with Mrs M's complaint about her credit card. Mrs M also referred a complaint to us about a loan she took out with 118 118 in August 2022, several months after the credit card. The offer that 118 118 made was to resolve her complaints about her loan and her credit card. We looked at Mrs M's complaint about her loan with 118 118 under another reference.

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 reviewed everything again and having no new information to consider, I see no reason to depart from my provisional conclusions. I'll explain why I'm upholding Mrs M's complaint again in this final decision.

As before, I've also had regard to the regulator's rules and guidance on responsible lending (set out in its consumer credit handbook – CONC) which lenders, such as 118 118, need to abide by. 118 118 will be aware of these, and our approach to this type of lending is set out on our website, so I won't refer to the regulations in detail here but will summarise them.

Before entering into a credit agreement, 118 118 needed to check that Mrs M could afford to repay the credit out of her usual means within a reasonable period of time, while meeting all her other commitments, without having to borrow further and without experiencing financial difficulty or other adverse consequences. The checks needed to be proportionate to the nature of the credit (the amount borrowed, for example) and take into consideration Mrs M's circumstances. 118 118 needed to bear in mind that certain factors might point towards a more rigorous assessment and others towards a less rigorous one when deciding what type of creditworthiness assessment was required.

Ultimately, 118 118 needed to treat Mrs M fairly and take full account of her interests when making its lending decision. It would not be lending fairly if "it targeted customers with regulated credit agreements which are unsuitable for them, by virtue of their indebtedness, poor credit history, age, health, disability or any other reason."

The questions I've considered are whether or not 118 118 carried out a proportionate affordability check before lending to Mrs M? If not, what would a proportionate check have shown? Did the checks 118 118 carried out show anything of concern and ultimately, did 118 118 treat Mrs M fairly and with due regard to her interests when it offered her credit?

Mrs M stated that her income was £3,647 on her application form, that she was self-employed with housing costs of £550. 118 118 estimated Mrs M's debt repayments as £332 and her other expenses as £875 based on national statistical datasets. 118 118 estimated that Mrs M had a monthly disposable income of around £1,890.

The credit file information 118 118 relied on showed that Mrs M had existing debts of £17,585, comprising a loan with a balance of around £1,200 and about 14 revolving credit accounts, two of which had just been opened that year. It also showed that Mrs M had just entered an arrangement to pay with a water company on an arrears balance of £8,165.

In some instances I could say that the checks 118 118 carried out were reasonable and proportionate but I'm afraid I can't say that they were in this case. The regulations at the time stated that it wasn't generally sufficient for a lender to rely solely on a customer's statement of current income in a creditworthiness assessment. Mrs M said she was self-employed and 118 118 had estimated that she would have more than half her income left over each month, which seems at odds with having such a large debt with a utilities company. In addition, I think the information 118 118 saw on Mrs M's credit file ought to have prompted it to carry out a more rigorous check before offering her credit so that it could reasonably assess whether or not she had the means to meet her repayments within a reasonable period of time without difficulty.

Mrs M provided her bank statements and I've reviewed these. To be clear, I am not suggesting this is the information 118 118 should have looked at but it is the information I have and I think it's reasonable to rely on it to learn about Mrs M's finances at the time and what a proportionate check might have revealed.

The money paid into Mrs M's account was made up of state benefits including carers' allowances, personal independence payments (PIP), disability living allowances (DLA), income support, child tax credits and child benefit. Mrs M explained that one of her children received DLA, another received PIP and her husband received a carer's allowance alongside income support payments. The national insurance references on the payments

support what Mrs M shared about them.

I don't think 118 118 could reasonably assume that all of these benefits and tax credits in their entirety were available to Mrs M to meet her credit card repayments. The only benefits in Mrs M's name were a carer's allowance and PIP and these weren't enough to cover her debt repayments and living costs. Even assuming that Mrs M retained all of the child benefit and child tax credits, she had seven dependents which these payments were provided to support.

I also don't think 118 118 could reasonably assume that these benefits and tax credits would remain at this level, given these types of benefits are usually reviewed periodically and are age or education dependent. Mrs M told us that the level of tax credits awarded per child was dependent on the child's DLA or PIP, for example, and child benefit was dependent on the age of the child and whether or not they were in education. I understand that carers' allowances are usually dependent on the person in care being in receipt of DLA or PIP.

The statements also show payments into Mrs M's account from her daughter with the reference 'rent' and ad-hoc contributions from family members. There were many payments from the account covering living costs and debt repayments. Clearly, Mrs M's finances were shared with her family. If 118 118 considered all of the deposits to Mrs M's account in its assessment, it would need to consider all of the expenses in order to estimate how much disposable income remained to meet the repayments. I don't think 118 118 considered whether Mrs M's husband had any personal expenses or existing debt repayments, for example.

118 118 carried out a detailed income and expenditure assessment with Mrs M in May 2023, about a year after the account was opened and provided a copy of the budget form she completed. It shows a significant decrease in the level of benefits and tax credits. Mrs M told us that her child's DLA was assessed and not renewed, and her other child's PIP payments ended when they left education. Two children leaving education meant a reduction in the child benefit payments and the child tax credits. I don't know if Mrs M's carer's allowance was also impacted.

118 118 recorded then that Mrs M had £21,500 of existing debt across three loans, 13 revolving credit accounts and 12 catalogue accounts. It also noted that Mrs M had £2,550 in gas and electricity arrears and was paying £60 a month to 'court orders or debt collectors'. The assessment concluded that Mrs M wouldn't have enough money to meet the repayments for all of her financial commitments, after her living costs and other debt repayments were taken into account.

I think 118 118 would have learnt through a proportionate check in April 2022 that there was a high risk Mrs M wasn't going to be able to meet her repayments for the credit card account without difficulty and would likely have declined to lend to her on this occasion. I think her difficulty meeting her repayments was foreseeable and I don't think 118 118 treated Mrs M fairly or with due regard to her interests when it entered into the agreement.

Putting things right

I've concluded that 118 118 was irresponsible to have provided Mrs M with a credit card account in April 2022. I think it's fair that Mrs M repays the credit she borrowed as she's had the use of the money but I don't think it's fair that she pays any interest, fees or premiums associated with the account.

Therefore, 118 118 should:

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

If 118 118 has sold an outstanding debt then it should either buy the debt back or work with the current debt owner to bring about the above steps.

** HM Revenue & Customs requires 118 118 to take off tax from this interest. 118 118 must give Mrs M a certificate showing how much tax it's taken off if she asks for one.

My final decision

For the reasons I've explained above I am upholding Mrs M's complaint about Madison CF UK Limited trading as 118 118 Money and it now needs to put things right for her as I've set out.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 18 March 2024.

Michelle Boundy
Ombudsman