

The complaint

Mr E complains that Madison CF UK Limited trading as 118 118 was irresponsible when it offered him a credit card account and later increased his credit limit.

Mr E brought his complaint via a representative but I will refer to him throughout for simplicity.

What happened

118 118 opened a credit card account for Mr E in March 2020 with a credit limit of £500. It increased his credit limit to £1,500 in September 2020 and again to £2,500 in October 2021.

Mr E complained to 118 118 in late 2023 that it had been irresponsible to provide him with credit and to increase his credit limit later on. Mr E said that he was having problems with his finances when he applied for the account. He said he was reliant on credit and was struggling to keep up with his repayments, and this additional credit was unaffordable for him.

118 118 didn't uphold Mr E's complaint. It said it carried out all the required checks before lending to him and found that the credit would be affordable. 118 118 said in its final response to Mr E in January 2024 that his use of the account was now restricted and he could no longer use it for spending though he needed to repay the outstanding balance.

Mr E referred his complaint to us. Our investigator looked into Mr E's complaint and recommended that it be upheld. They found that 118 118 should have seen from the checks it carried out that Mr E was having difficulty managing his existing finances and so wasn't likely to be able to repay this credit without it impacting adversely on his financial situation.

Mr E didn't agree with this recommendation and asked for the complaint to come to an ombudsman 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.

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 or significantly increasing the credit limit, 118 118 needed to check that Mr E could afford to repay the credit out of his usual means, within a reasonable period of time, 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, for example the amount offered, and to Mr E's particular circumstances and 118 118 needed to have proper regard to the outcome of its assessment in respect of affordability risk.

The overarching requirement was that 118 118 needed to pay due regard to Mr E's interests and treat him fairly. CONC 2.2.2G gave an example of contravening this as 'targeting 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.'

With this in mind, my main considerations are did 118 118 complete reasonable and proportionate checks when it opened the account for Mr E and later when it increased his limit to satisfy itself that he would be able to repay the credit offered within a reasonable period of time? If it didn't do this, what would reasonable and proportionate checks have shown? Was there anything of concern in the checks 118 118 did carry out and did it make fair lending decisions? Did 118 118 treat Mr E unfairly or unreasonably in any other way, including whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974?

I reviewed the information 118 118 relied on to make its lending decisions, including a copy of Mr E's application form, its income and expenditure estimates, and the credit file information it obtained each time.

Mr E's credit report from the time of the application showed that he'd recently been making payments of around £5 a month towards seven accounts. These had a combined defaulted balance of over £34,000 and six of them were revolving credit accounts. The outstanding balance of over £31,000 was repaid and the accounts shown as settled a few months before this account was opened. I haven't seen any evidence that Mr E had taken out a large loan or received a windfall. It may be that he reached the end of a formal debt management arrangement for these accounts but I don't have any information as to what happened here.

Mr E held four active revolving credit accounts with balances of £297, £399, £1,499 and £932 with respective credit limits of £300, £400, £1,500 and £900. He also held a revolving credit account with a limit of £528 which had a zero balance for the last 12 months and was clearly not using this card, for whatever reason.

118 118 said in response to our investigator's recommendation that although Mr E may have had financial issues in the past, he had repaid the defaulted accounts in full over a short period of time. It said that as these defaults were historic and had been satisfied they had no bearing on its decision to offer Mr E the account. 118 118 also said that while it noted the issues with Mr E's active accounts, these issues were not enough to decline an application for an account with a £500 credit limit and the repayments were affordable. 118 118 said it was a 'second chance lender' who helped people who may have a low credit rating to be able to access funds and rebuild their credit profile.

I appreciate what 118 118 said about it being a second chance lender and its willingness to offer credit to someone with a less than perfect credit rating. However, as 118 118 will know, it had an obligation to Mr E check that he could afford to repay the credit offered within a reasonable period of time without it impacting adversely on his finances, not simply that he could afford to meet the repayments.

118 118 should have seen from the information it had that Mr E had been making minimal payments towards a significant level of debt for a long period of time. It should also have seen that he was having difficulty making inroads into his active accounts with the four revolving credit accounts in use being at or above their limits. This strongly suggests to me

that Mr E had ongoing financial difficulties and I can't say that in this case 118 118 had proper regard to the outcome of its assessment. I don't think 118 118 treated Mr E fairly or with due regards to his interests when it agreed further credit for him under these circumstances.

The account statements show that Mr E spent up to his £500 limit immediately, and had exceeded it within two months. He made the minimum repayment in each month leading up to the first credit increase in September 2020. In 2021, Mr E made a lump sum payment to the account around the time he took out another credit card and increased his mortgage. However, by the time of the second limit increase in October 2021, Mr E's balance was just under his limit of £1,500 and his total revolving credit balances stood at £7,540, more than double what it was when the agreement began. His December 2021 statement shows that his account balance had almost reached his new credit limit of £2,500.

Altogether, I think 118 118 simply increased and prolonged Mr E's indebtedness by opening this account for him and offering him more credit later on. I've concluded that it lent irresponsibly here and I'm upholding his complaint.

I did also consider whether 118 118 treated Mr E unfairly or unreasonably in any other way, including whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. And I'm satisfied the redress I have directed below results in fair compensation for Mr E in the circumstances of his complaint and that no additional award would be appropriate in this case.

Putting things right

As per our usual approach I think it's fair that Mr E repays the money he spent as he's had the use of this but he shouldn't pay any interest, fees or charges associated with the account or have his credit file impacted. Therefore, 118 118 should:

- Rework the account removing all interest, charges or insurance premiums (that haven't already been repaid) that have been applied from the beginning;
- If the rework results in a credit balance, this should be refunded to Mr E 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 this account from Mr E's credit file.
- Or, if after the rework, there is still an outstanding balance, 118 118 should arrange an affordable repayment plan with Mr E for the remaining amount. Once Mr E has cleared the balance, any adverse information in relation to the account should be removed from his credit file.

*HM Revenue & Customs requires 118 118 to deduct tax from any award of interest. It must give Mr E a certificate showing how much tax has been taken off if he asks for one.

My final decision

For the reasons I've explained above I am upholding Mr E's complaint about Madison CF UK Limited trading as 118 118 and it needs to put things right as I've set out.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 2 November 2024.

Michelle Boundy

Ombudsman