

The complaint

Mr D has complained that Madison CF UK Limited, trading as 118 118 Money ("Madison"), irresponsibly granted him a credit card account, and subsequently increased his credit limit, which he couldn't afford to repay.

What happened

Mr D took out a credit card with Madison in February 2021, with a credit limit of £1,200. The limit was increased to £2,000 in October 2021. The balance was cleared in September 2022 and the account closed.

Mr D said he thought Madison hadn't carried out reasonable and proportionate checks before granting the credit card and then increasing the credit limit, and that it has made his poor financial situation worse. He also said he was regularly using short term credit such as payday loans at the time. So he thinks that Madison should refund the interest and charges on the credit card along with statutory interest at 8%.

Mr D complained to Madison, but it said that it had carried out appropriate affordability checks, and told Mr D that it did not uphold his complaint. He then brought his complaint to this service. Our investigator looked into it, but Madison did not provide any submissions and he thought it should be upheld. Madison didn't agree and asked for it to be reviewed by an ombudsman. It subsequently provided details of its affordability checks.

I issued my provisional decision in November 2023, in which I explained why, in the light of the new evidence, I disagreed with our investigator and proposed not to uphold Mr D's complaint. I said that I would look at any more comments and evidence provided by 1 December 2023. However, neither party has responded to my provisional decision.

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, and I've taken this into account here.

I've decided not to uphold Mr D's complaint. I'll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering things such as 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. So I've considered whether Madison completed reasonable and proportionate checks to satisfy itself that Mr D would be able to make the repayments on the credit card account in a sustainable way.

I explained my reasoning in my provisional decision as follows:

“Mr D sent in copies of his bank statements and his credit record. Madison sent in details of the checks it carried out and the information these were based on (including credit reports), for both the initial application and the credit limit increase, along with copies of Mr D’s credit agreement and his credit card statements.

Madison said that Mr D applied for his credit card online, and that the application included a number of different questions around income and expenditure and employment details. It further said that when an application is submitted, it is reviewed by its system and assessed against its scorecard. And it uses industry standard verification checks to validate the information provided on the application.

In this case, Madison said that Mr D didn’t provide detailed expenditure figures, so these were modelled using Office for National Statistics average figures, along with the information from his credit file. It provided the figures it used, and said that as the application was a straight accept through its scorecard, it did not request bank statements from Mr D prior to authorising the lending.

I should say here that I don’t have information showing whether the credit limit increase was requested by Mr D or offered by Madison. But this does not affect my decision so I will make no further comment on it.

Mr D’s income was shown as £1,582 in Madison’s assessment at both the initial application and credit limit increase. I think this is what Mr D stated on the application. Looking at Mr D’s bank statements, I can see that his monthly salary when the credit card was granted was just under £1,570. When the credit limit was increased it was slightly higher at just under £1,600. So the information used in Madison’s assessments was not materially different.

Looking at Mr D’s outgoings, in February 2021 Madison assessed his rent cost as just under £340, payments on his credit commitments as £112.80 and estimated essential living costs as around £590, leaving a disposable income of around £540.

Mr D’s bank statements don’t seem to include all of his outgoings – it looks as though he had four current accounts open at the time, and many of the transactions seem to be transfers to or from other accounts. We asked Mr D what his rental costs were, and he told us that the rent on his home was £800 at the time and his proportion varied but was between 50% and 65%. So this would mean he was paying between £400 and £520 – a higher amount than estimated by Madison.

Mr D’s credit record shows four current accounts and two credit cards open at February 2021. All the payments on these were up to date, and his credit card borrowing was £1,150. I can see that Mr D had defaulted on a loan in 2019 and a balance of £2,900 was outstanding. so it looks as though Madison’s estimate of credit commitments included a contribution for that, and overall I think Madison’s estimate is fair. I also think its estimate of living costs is reasonable.

Using the higher rental figure provided by Mr D would leave a disposable income of just under £350 each month. The required minimum payment on a balance of £1,200 would’ve been around £42 plus the interest charged in that month.

I’ve kept in mind that the statements provided by Mr D show that the balance in his bank account was regularly very low, but it’s difficult to draw any conclusions from this as many of the transactions appear to be transfers to and from his other accounts, or discretionary spending.

Taking all this into account, I consider that Madison carried out reasonable and proportionate checks before granting the credit card, and that it didn't act unfairly in granting it. I say this because the estimated figures used by Madison show that Mr D had sufficient disposable income to meet the monthly payments due on the card, and to do so sustainably. It's not clear how Madison estimated Mr D's rental payments, but even taking into account the higher figures provided by Mr D, his disposable income is still sufficient.

I also don't think there was information on Mr D's credit record that ought reasonably to have prompted further enquiries. I accept that there was a previous loan that had a default registered, but Madison has stated that it will accept adverse credit histories, and in any case payments on current commitments were up to date. There is no evidence that Mr D was using short term credit such as payday loans, and his overall borrowing was not especially high compared to his income.

Therefore, as I don't think Madison acted unfairly, I don't propose to uphold this element of Mr D's complaint.

Turning to the credit limit increase in October 2021, as I noted above Mr D's salary had increased slightly at this point. Madison assessed Mr D's rent cost as just over £280, payments on his credit commitments as £281.50 and estimated essential living costs as around £590, leaving a disposable income of around £425.

It looks as though Mr D had taken out two other credit cards in the interim, hence the higher estimate for his credit commitments (which would also include the amount due on his Madison card of course).

Using the higher rental figure provided by Mr D, and taking account of his slightly higher salary, along with the credit commitments and living costs, would leave a disposable income of just under £210 each month. The required minimum payment on a balance of £2,000 would've been around £70 – an increase of about £28 from the initial credit limit - plus the interest charged in that month.

In this case I think that Mr D's two additional credit cards, taken out in a short period of time, should reasonably have prompted further enquiries by Madison, as this could have indicated that he was becoming more reliant on credit. So I'm not satisfied that Madison's checks at this point were reasonable and proportionate.

However, this does not necessarily mean that Madison acted unfairly in granting the credit limit increase, and from the evidence I have I don't think it did act unfairly in increasing the credit limit.

I say this because Mr D's borrowing on his credit cards was around £3,900, so again not especially high relative to his salary. I've no reason to think that Mr D's essential living costs, or his payments on his other credit - were higher than calculated by Madison. Taking account of the higher rental figures provided by Mr D, his disposable income is still sufficient to meet the monthly payments due on the card, and to do so sustainably. And Mr D had met the payments due on the card since he opened the account. Again there is no evidence that Mr D was using short term credit such as payday loans.

As I've concluded that Madison didn't act unfairly in granting the credit limit increase, I'm not proposing to uphold this element of Mr D's complaint.

In summary, although I think Madison should reasonably have carried out further checks before granting the credit limit increase, I don't think it acted unfairly in granting the credit card or in increasing the credit limit. So I don't propose to uphold Mr D's complaint."

As I noted above, neither party responded to my provisional decision. Therefore, as no new evidence has been provided, I have no reason to change my conclusions. So I do not uphold this complaint.

My final decision

For the reasons I've explained, I've decided not to uphold Mr D's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 3 January 2024.

Jan Ferrari
Ombudsman