DRN-3162998

The complaint

Mr H complains that Tesco Personal Finance PLC ("TPF") irresponsibly gave him a loan and an increase to his credit card limit. He feels this added to his difficulty dealing with a gambling addiction.

What happened

Mr H's credit card from TPF began in 2011, with a credit limit of £4,000. Mr H didn't ask for any increase in the credit limit, but TPF gave one in May 2016, increasing the limit to £6,000.

Mr H took out a three-year loan with TPF in 2012. He made the payments towards this loan, and paid it off in June 2015. Mr H then took out a second three-year loan with TPF in September 2015.

From around 2017, Mr H struggled to make his payments towards the loan and the credit card. Despite some late payments, Mr H managed to pay off most of the loan over the following years, with TPF writing off just under £800 of the remaining balance in March 2019.

The credit card debt passed into default, with TPF selling the debt to a third party in January this year.

Mr H has complained that TPF shouldn't have lent him the money. His complaint talked about debts he built up as a result of a gambling addiction, using up the money lent to him by TPF. He accepts he hadn't told TPF about his gambling problem at the time, but feels they should have done more to recognise it and restrict what they lent him.

TPF responded by saying they carried out reasonable checks at the time to make sure the lending was affordable and sustainable. They feel that means their decisions to lend to Mr H considered what was required and were responsible, based on what they knew at the time. They said how Mr H chose to spend his available credit was a matter for him, and wouldn't have been analysed by them.

Unresolved, the complaint came to me for a decision. I wrote a provisional decision last time, explaining that I intended to partly uphold Mr H's complaint. I found that TPF's decision to give Mr H the loan in 2015 had been reasonable, but the decision to increase his credit card limit wasn't. To resolve this, I said TPF should refund some of the fees and interest that were paid on the credit card, and pay Mr H some compensation.

I explained too why I felt the actual money Mr H borrowed didn't need to be written off, and why his credit record didn't need to be adjusted.

TPF didn't respond to my provisional decision, which I've taken to mean they have nothing new to add before I make a final decision. Mr H did respond, and explained why he felt there should be an adjustment to his credit history, to reflect that the last two years he's not repaid the credit card debt reflects the time he was waiting for his complaint to be resolved, rather than his ability to manage his credit.

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 done so, I've decided my provisional decision was the right one for this complaint. I'm going to largely repeat the reasoning I set out last time. But I'll add a short piece to explain why Mr H's comments haven't changed my view about changing his credit history.

When lending money to Mr H, regulations and guidance call for TPF to carry out reasonable and proportionate checks that he could afford the borrowing in a sustainable way. Particularly relevant here are guidelines in the consumer credit sourcebook of the Financial Conduct Authority's Handbook ("CONC"). Part 5.2A.22 says a business should have regard to information that may indicate a customer has a vulnerability.

Mr H has said he didn't tell TPF about his gambling addiction. But I've looked to see what information was available to TPF that could have told them there was a problem.

When giving Mr H the September 2015 loan, TPF checked whether it would be affordable for him by looking at his income and outgoings. I can see how that led them to conclude he could afford the borrowing, as even with the repayments and other financial commitments, Mr H would have some disposable income left each month.

TPF also used a scoring of Mr H's credit history to assess whether he could sustain the repayments of the loan. Here I accept the result supported the decision to lend to him. Mr H's credit record in 2015 doesn't look to have any defaulted debts, or debts with repayment issues.

TPF had some history of lending to Mr H, which I would have expected them to consider too. But it would have been enough for TPF to consider recent events.

The 2012 loan had been repaid in June 2015 without major issues. So that seems to support the decision to lend to Mr H in September 2015. And looking at the statements for the credit card in the six months leading up to September 2015, the spending doesn't appear too concerning either.

It's true the total balance on the card was staying close to its limit, rather than being gradually paid off. But Mr H was making regular payments toward the card, and the affordability checks TPF had done suggested he'd still be able to do that, even with the new loan.

Mr H had made a couple of gambling transactions on his credit card over the six months. But these don't appear problematic – they were for relatively low amounts, infrequent, and weren't causing the card to go repeatedly over its limit. I can see why TPF wouldn't necessarily have thought there was a gambling problem – or a related vulnerability – in that case.

So I'm currently of the view that even if TPF had looked at Mr H's recent history with them – in addition to the checks they did – they wouldn't have seen anything to suggest the loan in September 2015 would be unaffordable or unsustainable, or that Mr H was potentially made vulnerable by a gambling addiction.

After getting the loan, I can see Mr H used some of it to pay off his credit card with TPF. He then re-spent the credit on gambling. Over a relatively short amount of time - 7 to

14 September – Mr H spent a relatively large amount of money on gambling websites – over £4,000.

The spending now showed a drastic difference to what had gone before, or what would be a typical pattern of use. I'd have expected TPF to have some way to recognise that sort of spending, as there was a chance the activity pointed to some underlying problem.

It's possible TPF may have decided to call and check Mr H had made the purchases – as a sharp change in activity could indicate some sort of fraud. But they'd have found no issue there – it was him making the purchases. And even if they'd commented to him about the high amount spent rapidly on gambling, it's not clear Mr H would have recognised that as a problem. He's said he didn't tell anyone about his gambling addiction until 2019.

But I find the transactions seem to show that the only control on the gambling in September 2015 was that Mr H had reached his credit limit. I intend to conclude that TPF should have made a note of that, as it suggested Mr H was a vulnerable customer. Failing to do that meant the vulnerability wasn't considered when TPF decided to increase Mr H's credit limit. Failing to take that into account made the credit limit increase irresponsible.

Putting things right

TPF's decision to lend to Mr H in September 2015 would likely have been confirmed by extra checks of his recent borrowing with them. So TPF won't need to take any steps to change the impact that lending had on him.

But the decision TPF made in 2016 to increase Mr H's credit limit was unreasonable, because it didn't consider the evidence they had which indicated he was a vulnerable customer.

That lending decision allowed Mr H to gamble borrowed money, until it was gone. He then had to pay the money back, with interest. The episode also meant the account went over-limit more frequently, incurring a fee. And ultimately, the account went into default.

To put that right, TPF should refund the interest and fees charged on the credit card lending above £4,000 – the pre-May 2016 credit limit. Had TPF considered the credit limit increase more reasonably, I find it likely those fees and interest wouldn't have been incurred.

I've thought about whether the actual money Mr H borrowed after the credit limit was increased should be written off. But I've decided that's not a fair remedy here. There was enough evidence available to TPF that they should have considered Mr H was potentially a vulnerable customer. But there wasn't quite enough to say he'd certainly gamble away any money they lent to him.

Mr H has talked about the emotional impact his situation's had on him. It's been difficult to fully picture what it was like living with the feelings he's described. But I truly hope that he now feels better able to cope with his finances and gambling addiction.

A lot of that turmoil comes from the impact of Mr H's addiction – rather than actions by TPF. But TPF's irresponsible lending added to the impact, by adding to the debt that addiction was able to create. To acknowledge that, TPF should pay some compensation to Mr H.

Picking an amount for that is a matter of opinion. In my view, £600 is a suitable figure here. I feel it balances the profound impact Mr H has described feeling because of this situation, against the fact that TPF's failing only contributed to that, rather than being the main cause.

Thinking about Mr H's credit record for this matter, I've noted Mr H's comments in response to my provisional decision. I get his point – he might have handled the debt differently, if TPF had responded to his complaint differently, in line with what I've now said they should do.

But I'm not as sure of that. I've not fully upheld Mr H's complaint about all of TPF's lending decisions. And I've not said they need to write off the whole credit card debt. So I feel there's a good chance that if TPF had responded more in line with what I'm now saying, Mr H would still have chosen to bring his complaint to us, rather than repaying the debt. His credit record will be consistent with that, which I consider fair in this case.

Mr H defaulted on his credit card and was late with some of the payments for the 2015 loan. The negative reporting on the history of the loan seems to follow from the reasonable decision to lend to him in 2015, rather than any failing by TPF. It seems unfair to ask them to change that, given they've made no error.

Likewise, the credit card default fairly reflects Mr H's use of his credit at the time. His gambling addiction meant the credit limits he had acted as the only brake on his spending.

Potential lenders will use Mr H's credit record to decide how much of a limit to apply to his future borrowing. I feel that makes it fair – and maybe even beneficial to Mr H – for them to be able to accurately consider his past with TPF when they do. So I'm not directing TPF to make any changes to Mr H's credit record as a result of this complaint.

My final decision

I partly uphold Mr H's complaint about Tesco Personal Finance PLC. Their decision to increase his credit card limit in 2016 was irresponsible. To put this right, they should do the following:

- Work out what fees and interest have been charged on the increased credit limit since 2016, and waive or refund them.
- If these amounts exceed what's still owed on the credit card, refund the excess to Mr H, together with 8% simple interest.
- Pay Mr H £600 compensation for the upset and distress TPF have added to his situation.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 17 December 2021.

Paul Mellor
Ombudsman