

The complaint

Mr P complains that Tesco Personal Finance PLC lent irresponsibly when it approved his credit card application and then later increased his credit limit.

What happened

Mr P took out a credit card with Tesco in 2016. He had an income of around £20000 a year. Tesco carried out an affordability assessment and credit check before approving a credit card with a limit of £250. Mr P said Tesco kept increasing his credit limit. But the lending was unaffordable given his financial circumstances. So he'd like a refund of the interest, fees and charges applied to his account.

Tesco said when Mr P applied for his credit card it'd reviewed his financial information and circumstances before coming to a decision. When Mr P was offered his credit card he'd accepted the terms and conditions of the account.

Tesco said it'd looked at how Mr P had managed his account and checked his credit file before offering the credit limit increases in 2017 and 2018. And it'd taken into account his financial position. Mr P hadn't notified Tesco of any difficulties. And he could've declined the increases if he wished.

Tesco said Mr P had exceeded his limit on four occasions in just over two years. But the credit card had never fallen into arrears and Mr P had never received a late payment fee. Mr P had repaid the account in full in September 2018 and the account was now closed. And it couldn't agree it'd lent irresponsibly.

Mr P wasn't satisfied with Tesco's response. So he contacted our service and our investigator looked into the matter. She looked at whether Tesco had carried out reasonable and proportionate checks when deciding on the lending to Mr P. And she felt Tesco had acted appropriately when offering Mr P a credit card with a £250 limit in 2016.

She could see Mr P's account was being managed well, with no late payment or arrears, when Tesco increased his credit limit to £600 and then £900. And it'd carried out affordability assessments and checked for adverse credit issues such as CCJs and defaults.

But our investigator said Mr P was only making minimum repayments on other cards. And he'd used over 95% of his available credit with other card issuers. Mr P had also only been making his minimum payment on the Tesco credit card since opening the account. And she felt it was evident Mr P was relying heavily on credit to manage his everyday circumstances. Further borrowing wasn't sustainable based on the level of income he was reporting.

So our investigator felt Tesco hadn't acted fairly. It should've carried out further checks. And to put things right Tesco needed to refund Mr P any interest, charges or fees resulting from the credit increases in 2017 and 2018. And any adverse credit rating data after those increases would need removing from his credit file.

Tesco didn't agree with our investigator.

It said it'd carried out the same checks when increasing Mr P's credit limit as it had when approving the initial application. There'd been nothing on his credit file to indicate any problems with defaults, overlimits or arrangements.

And based on Mr P's stated salary his net disposable income had been higher before each credit increase and his debt-to-income ratio had been reducing. Tesco said it'd made the right decision to increase Mr P's credit limit. So it's asked for an ombudsman's final 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.

I'm sorry to hear of the financial difficulties Mr P has experienced and the stress that will have put him under.

The first thing I need to decide is whether I think Tesco has carried out reasonable and proportionate checks. Section 5 of the Consumer Credit (CONC) sourcebook shows that the assessment Tesco needed to complete should've been dependent on, and proportionate to, a number of factors – including the amount and cost of the credit and the consumer's borrowing history.

CONC also provides guidance on the sources of information that Tesco might have considered as part of making a proportionate lending assessment. It then gives examples of factors that a lender should consider and refers to whether the information it has is sufficient or whether it needs to obtain additional information from the customer and any other sources.

Of course Tesco is free to decide what its lending criteria should be. But it has to complete proportionate checks to ensure borrowing is sustainable.

When Mr P took out his Tesco credit card in 2016 he was given a credit limit of £250. Mr P took advantage of a promotional rate which would've helped his financial circumstances if he'd intended to transfer a balance from another card. And I think the checks carried out at the time by Tesco were appropriate for the relatively low level of credit offered.

Tesco increased Mr P's credit limit to £600 in 2017 and £900 in 2018. But Mr P feels the additional lending was unaffordable because of his salary and other debt. Tesco says it carried out the same checks for each increase as it had when approving the card issue. And its calculations showed Mr P's situation was improving at each increase. Tesco says it looked at Mr P's account history, application data and credit file. And it was approved in line with its lending criteria.

But I don't think that's the whole picture. Mr P's credit file didn't show any problems with CCJs, debt management plans or other issues when Mr P started using the card or when his limit was increased. So Mr P was clearly trying to meet his monthly payments for both the Tesco card and his other debts.

But when Tesco increased his credit limit from £250 to £600 in early 2017 Mr P's debts totalled over £19000 on a salary of £20000. And even though Tesco says they'd reduced to around £15500 when the limit increased to £900 in 2018 that was still a debt-to-income ratio of around 75-80%.

I think on both occasions Tesco should've considered further whether the ratio was too high to make additional lending.

I've looked at the affordability data Tesco provided. Based on what I've seen I think Tesco should reasonably have realised it was increasing Mr P's level of indebtedness in a way that might be unsustainable. He appeared to be relying on his various sources of credit to get through each month. And he was only making minimum payments on his Tesco and other credit cards.

If Tesco had carried out more comprehensive checks I think it would've found Mr P was reliant on credit at the time of each credit limit increase. He had a number of other lenders to repay and he immediately increased his credit card balance to the higher limit each time it increased - while still only making small or minimum repayments each month.

I can't say Tesco lent irresponsibly when it approved Mr P's application. But I do think it lent irresponsibly when increasing the credit limits in 2017 and 2018. And when our service finds that credit has been given irresponsibly our general approach is to direct the lender to refund any interest or charges applied to the account in relation to that lending.

Putting things right

As I think Tesco lent irresponsibly, I'm going to tell it to refund all interest, fees and charges applied to Mr P's credit card as a result of the credit limit increases in March 2017 and August 2018. Tesco should also remove any adverse information about a debt that was lent irresponsibly from Mr P's credit file.

My final decision

My final decision is that I uphold this complaint. Tesco Personal Finance PLC must take the steps I've outlined in 'putting things right' above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 13 April 2022.

Andrew Mason
Ombudsman