

Complaint

Mrs H has complained that Tesco Personal Finance PLC (trading as “Tesco” Bank) irresponsibly provided her with a credit card. She’s said the credit card and limit increase were unaffordable and led to her ending up in persistent debt.

Background

Mrs H was provided with a credit card, which had an initial credit limit of £1,700.00 in March 2017. In December 2018, this limit was increased by £1,000.00 to £2,700.00. One of our investigators reviewed what Mrs H and Tesco had told us. She thought that Tesco didn’t do anything wrong when initially providing the credit card but that it shouldn’t have increased the credit limit. Tesco disagreed so the case was passed to an ombudsman for review.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Mrs H’s complaint.

Having carefully considered everything provided, I’m partially upholding Mrs H’s complaint. I’ll explain why in a bit more detail.

Tesco needed to make sure that it didn’t lend irresponsibly. In practice, what this means is Tesco needed to carry out proportionate checks to be able to understand whether Mrs H could afford to repay before providing Mrs H with her credit card, any limit increases and her loan. Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

The credit card Mrs H was initially provided with had a credit limit of £1,700.00. And as this was a credit card Tesco was required to understand whether Mrs H could repay around £1,700.00 within a reasonable period of time.

I understand that Mrs H was asked to provide a declaration of her income and she stated it was around £2,400.00 a month. I can also see a credit check was carried out which showed that Mrs H had 8 active accounts. She had 3 revolving-credit accounts where she was using 75% of the credit available to her but none of her balances were over the limit. So I think it’s fair to say that Mrs H was using up a substantial portion of her existing revolving credit.

Nonetheless, I'm mindful that Mrs H did provide information on her monthly mortgage payments. Taking this into account as well as the fact that this card had a promotional 0% balance transfer rate, which meant that it was likely that Mrs H was going to consolidate her existing credit card debt, I'm satisfied that Tesco was reasonably entitled to conclude that Mrs H would be able to repay £1,700.00 in a reasonable period of time. As this is the case, I'm satisfied that Tesco's checks before initially providing Mrs H with her credit card were reasonable and proportionate and I don't think it acted unfairly in March 2017.

In December 2018 Tesco increased Mrs H's limit by a further £1,000.00 taking it to £2,700.00. I want to start my consideration of matters relating to the credit limit increase by saying that I'm not persuaded by Tesco's argument regarding Mrs H being able to refuse the credit limit increase and the insinuation that her not doing so meant that the limit increase was affordable. I'm also concerned that Tesco seems to be suggesting that a lesser standard, in terms of affordability checks, applies in circumstances where a credit limit increase is proactively offered, rather than when a borrower makes an active application.

The information that Tesco did gather seems to focus more on creditworthiness and the risk of it getting its money back, rather than Mrs H's ability to repay what she was being lent within a reasonable period of time. It has relied on Mrs H not having any defaults on any other accounts, not being in arrears or over the limit at the time limit increase was offered and her not being in persistent debt either.

I think that Mrs H not being in persistent debt by December 2018 is of limited relevance here. Given Mrs H had a promotional 0% interest rate for most of the period between the card being provided and the limit increase she would have found it difficult to have paid more in interest, fees and charges than what she reduced the capital by. What Tesco has also overlooked is that there was nothing in Mrs H's repayment history up until this point which suggested that she could pay what she owed within a reasonable period of time.

So I certainly wouldn't go as far as saying that Mrs H's Tesco account was always managed well. At best, what Tesco saw indicated that she was just about servicing her existing debt. And, in my view, this, in itself, didn't clearly demonstrate that Mrs H could sustainably repay an additional £1,000.00, plus the interest accrued, within a reasonable period of time. Equally, the bureau data Tesco is relying on doesn't really indicate that she'd made substantial inroads into what she owed during the period she had a £1,700.00 limit either. And she was still using a high proportion of her existing limits. Indeed, I can't see anything to suggest that Tesco gathered any other information about her living expenses.

As this is the case, I've not been provided with enough to satisfy me that the checks Tesco carried out before providing this credit limit increase were reasonable and proportionate. As I'm satisfied that reasonable and proportionate checks weren't carried out before Mrs H's credit limit was increased to £2,000.00, I can't say for sure what they would've shown. So I need to decide whether it is more likely than not that proportionate checks would have told Tesco that Mrs H would have been unable to sustainably repay £2,700.00 within a reasonable period of time.

I think that Tesco needed to get a better understanding of Mrs H's income and expenditure before increasing her credit limit to £2,700.00. Having looked at Mrs H's expenditure, it's clear that she was paying more towards her mortgage than Tesco thought she was. What I've seen, from around the time, suggests most of Mrs H's income was taken up by her existing living costs and repayments to her existing commitments. Indeed, she was exceeding her overdraft limit and paying unarranged overdraft charges.

Bearing all of this in mind, I'm satisfied that reasonable and proportionate checks would more likely than not have demonstrated that Mrs H would not have been able to repay

£2,700.00 within a reasonable period of time and certainly without borrowing further. In these circumstances, I find that reasonable and proportionate checks would more likely than not have alerted Tesco to the fact that Mrs H couldn't afford the credit limit increase in December 2018. And so Tesco didn't act fairly and reasonably when it increased Mrs H's credit limit to £2,700.00 in December 2017.

I've noted Mrs H's concerns about interest being added to her account while she was on a pandemic payment holiday. But as our investigator explained, these payment holidays were broad brush arrangements which permitted a lender to charge interest, rather than bespoke arrangements tailored to an individual's circumstances and which would be reported on a borrower's credit file. So I don't think that Tesco did act unfairly when adding interest to Mrs H's account during her payment holiday and I'm not upholding this part of her complaint.

Fair compensation – what Tesco needs to do to put things right for Mrs H

Having carefully considered everything, I think that it would be fair and reasonable, in all the circumstances of Mrs H's complaint, for Tesco to put things right in the following way:

- rework Mrs H's credit card account to ensure that from December 2017 interest is only charged on the first £1,700.00 outstanding - to reflect the fact that the credit limit increase to £2,700.00 shouldn't have been provided. All late payment and over limit fees should also be removed. Any extra Mrs H paid should be treated as overpayments and returned to her;
- removing any adverse information recorded on Mrs H's credit file as a result of the credit card limit increase.

† HM Revenue & Customs requires Tesco to take off tax from this interest. Tesco must give Mrs H a certificate showing how much tax it has taken off if she asks for one.

My final decision

For the reasons I've explained, I'm upholding Mrs H's complaint. Tesco Personal Finance PLC should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs H to accept or reject my decision before 8 September 2022.

Jeshen Narayanan
Ombudsman