

The complaint

Miss P complains about the two credit limit increases made on her credit card account by Tesco Personal Finance PLC trading as Tesco Bank. She said neither of these increases was affordable for her, and she wanted Tesco to repay the interest she had been charged.

What happened

Miss P told us Tesco had increased her credit limit by £5,000 over the past few years, although it was also sending her letters saying she was in persistent debt. She said she'd told Tesco the monthly repayments were causing her persistent debt. She thought Tesco had been irresponsible when it offered these increases, and didn't think her limit should be raised unless she asked for this.

Miss P said she had the option to borrow some money from family to clear her debts, but Tesco wouldn't accept a lower amount to settle the debt. She wanted us to make Tesco change its policies, so it only put through limit increases when a customer asked for them. And she wanted Tesco to pay her back the interest she'd paid since June 2018, when she was given the first unsolicited increase.

Tesco said it had increased Miss P's credit limit twice. It was raised from £6,800 to £8,800 in June 2018, then in August 2019 the limit was increased again to £11,800.

Tesco said when it increased the available lending to Miss P, it had evidence to confirm that she wasn't over-indebted, or in arrears, or over her limit. And she didn't have any country court judgments or bankruptcies. It thought she was in excellent financial standing, and the limit increases were perfectly affordable. And although Tesco has written to her since about persistent debt, it said these letters only started in July 2020, which was well after the date of the credit limit increases.

Tesco didn't think it had done anything wrong.

Our investigator thought this complaint should be upheld. She said our service isn't able to make the overarching changes that Miss P would like. So we can't require credit card companies to only increase a consumer's credit limit at their request. But we could look about the lending made to Miss P. And she didn't think Tesco had lent responsibly.

Our investigator said Tesco had to assess whether Miss P could afford to meet her card repayments in a sustainable way over the relevant term, looking at the risk to Miss P of this borrowing. She said when Tesco lent to Miss P in 2018, it knew that she had a significant amount of borrowing already, including revolving credit. She was using a sizeable proportion of the credit available to her, and her overall position suggested she was paying the minimum amount on these credit cards. She owed more than £13,806 to existing creditors excluding her mortgage. Her outstanding debts relative to her income were high, so any additional credit would be expected to have a significant impact. And she was already spending a lot of her income on servicing debt.

Our investigator said all this meant that Tesco should have done more detailed checks to

find out more about Miss P's financial position. She couldn't be sure what those checks would have shown, but she said Tesco could have asked Miss P for details of her income and expenditure, or asked to see bank statements.

Our investigator said we did have bank statements for the relevant time, so she looked at those. And she said they suggested that any reasonable and proportionate checks made at the time Tesco approved this lending would be likely to have demonstrated that Miss P would not have been able to make her repayments sustainably over a reasonable period of time. Our investigator didn't think Tesco would've lent if it had carried out these extra checks.

Our investigator said her conclusions on the first credit limit increase meant she would also uphold the complaint Miss P made about the second increase. There was no evidence to suggest there had been any significant and sustained improvement in Miss P's financial circumstances between the credit limit increase in June 2018 and the one in August 2019.

Our investigator said Tesco should refund all the interest Miss P had been charged to date. Tesco didn't agree. It didn't feel it was fair for our investigator to carry out checks three years after the credit limit increases occurred, and retrospectively apply those findings. It also said looking at bank statements wasn't the level of checks which would have been appropriate or reasonable at the time of these increases. And it didn't accept that Miss P using her overdraft facility was necessarily an indicator of financial difficulty. Tesco said the increases themselves weren't huge, and the account was being maintained well. And the credit checks it did indicated no concerns.

Tesco also said Miss P hadn't complained about the first £6,800 of lending. So it didn't think it should be asked to repay interest on that part of her debt.

Our investigator didn't change her mind. She said the further checks she had done were intended to see what Tesco would have uncovered, if it had looked more closely at Miss P's financial situation at the time. She didn't think this approach was unfair. She summarised for Tesco the debt showing on Miss P's credit file at the time. And she didn't think Miss P was just maintaining her overdraft. She thought Miss P was reliant on it to support daily living expenses and repayments to creditors. So our investigator still thought that reasonable and proportionate checks were likely to have demonstrated that Miss P would not have been able to make her repayments sustainably over a reasonable period of time, given the credit limits Tesco offered.

Our investigator said she would be asking Tesco to refund interest and charges on Miss P's balance once it exceeded £8,800.

Tesco noted that our investigator had understood Miss P's credit check to have generated a much higher indebtedness score than it did. And it said our investigator's view of Miss P's overdraft contradicted what a previous ombudsman had said elsewhere.

Because no agreement was reached, this complaint was passed to me for a final decision.

My provisional decision

I issued a provisional decision on this complaint and explained why I did propose to uphold it. This is what I said then:

I'd like to start by confirming a point that our investigator has also explained, which is that our service isn't a regulator. We can't tell banks not to proactively offer credit limit increases on a credit card. But we can look at whether Miss P should have been given the increases she complained about here. So that's what I've done.

When Miss P applied for this card in October 2017, she told Tesco that she was earning £26,000 per year. Her credit file showed she had a mortgage, and over £14,000 of unsecured debt. Tesco was aware that the lending it was offering her would increase this unsecured debt by 34%.

I make no comment on the affordability of the initial lending made when Miss P's card account was opened, because I can't see that Miss P has complained about this, and because I don't want to delay a resolution of this complaint now. She can complain about this to Tesco if she wishes.

Tesco has argued that the increases it then made to Miss P's credit limit weren't significant. I disagree. The first increase was £2,000, well over 25% more than her existing lending with Tesco. And the second increase meant that Miss P's available credit had almost doubled. Taking account of this and of Miss P's relatively low income, I do think these were significant increases, which ought to trigger an assessment of creditworthiness.

When Tesco reached a decision on whether to increase Miss P credit limit, in June 2018, it knew that her debt position was essentially the same as it was when she'd taken out this card. She hadn't reduced her overall debt in the last nine months. More of that debt was on the Tesco card, as Miss P had taken advantage of a balance transfer offer. And the account she had transferred from remained open, so Miss P already had a considerable amount of credit available to her.

I realise that Miss P had been meeting the minimum required payment to her Tesco card in most months (although she appears to have missed her payment for January 2018). But Tesco is obliged to consider whether Miss P could repay the new limit sustainably, and past repayments are no guarantee of this.

Tesco knew in June 2018 that Miss P's income was low, her existing unsecured debt was already over half her gross annual income, and her overall debt position had essentially remained static since October 2017. So I think it should have realised that Miss P was not currently repaying her existing debts in a sustainable fashion, and indeed, may not have been able to do so. And because of that, I think that Tesco ought to have carried out further checks to ensure that Miss P could repay any increased lending.

Like our investigator, I do not think it's unfair for our service to consider now information which wasn't considered by Tesco at the time.

Looking now at Miss P's bank statements and credit file from the time, I think that Miss P did appear to rely heavily on her overdraft. I understand that regular usage of an overdraft isn't always evidence of financial difficulties, but I think Miss P's overdraft usage does indicate that she was struggling with her existing debts. I note that Miss P went over her overdraft limit in May 2018, at around the same time that Tesco must have been deciding whether to offer this increase. I also note that Miss P's expenditure on things like utilities at this time appears to me to be exceptionally high, which suggests to me that Tesco may have greatly underestimated her monthly living expenses.

I also agree with our investigator that if Tesco had carried out additional checks, then it would have been unlikely to offer Miss P additional lending in June 2018. And having considered Miss P's overall position in August 2019, I can see that the balance on her Tesco card remained around the same. So this debt hadn't reduced. But Miss P had once more used the card that she'd previously cleared with a balance transfer to Tesco.

It was near its limit. Miss P does appear to me to still be relying on her overdraft at this point. And she was also still paying exceptionally high utility bills. So I have reached the same overall conclusion on the lending made then.

Because I don't think Tesco should have increased Miss P's credit limit to £8,800 and again to £11,800, I don't think it's fair for it to charge any interest or charges on any balance which exceeded the original limit. However, Miss P has had the benefit of all the money she spent on the account so I think she should pay this back. Therefore Tesco should:

- Rework the account removing all interest and charges that have been applied to balances above £6,800.
- If the rework results in a credit balance, this should be refunded to Miss P along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Tesco should also remove all adverse information recorded after June 2018 regarding this account from Miss P's credit file.
- Or, if after the rework the outstanding balance still exceeds £6,800, Tesco should arrange an affordable repayment plan with Miss P for the remaining amount. Once Miss P has cleared the outstanding balance, any adverse information recorded after June 2018 in relation to the account should be removed from her credit file.

I invited the parties to make any final points, if they wanted, before issuing my final decision. Both parties replied.

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.

Mrs P said she agreed with my provisional decision, and hoped Tesco would accept it.

Tesco replied to say it would like to see the documentation I'd relied on, in making my provisional decision. Our investigator explained to Mrs P that we would usually share evidence we've relied on in a case. Mrs P said she understood and was content for the information to be shared. After Tesco received this, it said it had no further comment.

Neither party has offered any additional argument or evidence in this case, and I haven't changed my mind. I'll now make the decision I originally proposed.

My final decision

My final decision is that Tesco Personal Finance PLC trading as Tesco Bank ("Tesco" hereafter) must –

Rework the account removing all interest and charges that have been applied to balances above £6,800.

If the rework results in a credit balance, refund this to Miss P along with 8% simple interest per year calculated from the date of each overpayment to the date of settlement. Tesco must also remove all adverse information recorded after June 2018 regarding this account from Miss P's credit file. (HM Revenue and Customs may require Tesco to take off tax from this interest. Tesco must give Miss P a certificate showing how much tax it's taken off if she asks for one.)

Or, if after the rework the outstanding balance still exceeds £6,800, Tesco must seek to arrange an affordable repayment plan with Miss P for the remaining amount. Once Miss P has cleared the outstanding balance, any adverse information recorded after June 2018 in relation to the account must be removed from her credit file.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P to accept or reject my decision before 26 August 2022.

Esther Absalom-Gough
Ombudsman