

The complaint

Mrs D complains that Tesco Personal Finance PLC trading as Tesco Bank irresponsibly gave her two credit cards she couldn't afford to repay.

What happened

In August 2018 Mrs D was approved for a credit card with Tesco Bank with an initial credit limit of £9,000. In September 2020 Mrs D opened another credit card account with Tesco Bank with a limit of £5,600. Mrs D therefore had a combined credit limit of £14,600.

Mrs K says that the limits were unaffordable and Tesco Bank shouldn't have agreed to this level of credit as she couldn't afford to pay it back. Mrs D says that she has been unable to make any reduction in her debt and has only been able to pay the minimum repayment.

Tesco Bank didn't agree. It said that it carried out reasonable and proportionate checks before deciding to lend to Mrs D and the credit was affordable.

Our investigator recommended that the complaint was upheld. They thought that the information Tesco Bank had from the credit checks demonstrated that Mrs D didn't have enough disposable income to sustainably make the repayments on the first card. They thought that taking into account Mrs D's other debts the initial limit was unaffordable and the account shouldn't have been opened. They recommended that Tesco Bank refund all interest and charges across both accounts.

Tesco Bank didn't agree and replied to say in summary that Mrs D said in her application form she wasn't making any repayments towards the mortgage. It also disagreed with the investigator's view that the amount Mrs D needed to pay towards her other revolving credit of 5% was reasonable.

The complaint has been passed to me for a 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.

Tesco Bank will be familiar with all of the rules, regulations and good industry practice we consider when looking at complaints relating to irresponsible or unaffordable lending so I won't repeat it in detail in this decision. Information about our approach to these complaints is set out on our website.

Before approving Mrs D's application Tesco Bank assessed her financial situation. In the application Mrs D declared she was a homeowner with a mortgage, she was working full time with a monthly take home pay of £1553.

Tesco Bank also carried out a credit check. The results revealed that Mrs D was generally managing her other credit well with no adverse data such as missed repayments or defaults. The results showed the mortgage repayment and that Mrs D had a loan with £7171

outstanding and other credit amounting to £3551. Tesco Bank assessed Mrs D's regular other outgoings using average costs data. Tesco allowed £466 for mortgage repayments, £268 for loan repayments, £107 for other credit repayments, £466 for living expenses and £227 towards the new card.

The credit bureau information showed a mortgage repayment of £694 but Tesco Bank says that Mrs D declared on her application form she was making no contribution to this repayment. Tesco Bank hasn't provided the application form. In any event, I don't think it was reasonable for Tesco to have assumed that Mrs D was paying less than the figure provided by the credit bureau for the repayments without further information.

I agree with the investigator that sustainable repayments on Mrs D's other credit should have been assumed at higher than the 3% of £3551 which was the £107 allowed for by Tesco Bank. This is because I think it is likely that Mrs D was likely to have had some unused credit which should have been factored in when calculating likely repayments. In any event, this figure and the repayment for the new card are not included in the calculation of Mrs D's disposable income.

Taking all the figures as they were assessed by Tesco this left Mrs D with only £19 disposable income after revolving debt repayments and repayments to the new card. I consider that Tesco Bank failed to properly take this information into account and the credit was not sustainable.

I also think that Tesco underestimated the amount Mrs D was repaying on her mortgage and revolving debt commitments which meant that in reality she would have no disposable income and she would be unable to sustainably repay the credit. For these reasons I don't think Tesco Bank should have given Mrs D the first credit card.

Mrs D's position didn't improve and so it follows that I don't think Tesco should have approved the second credit card either.

Putting things right

As I don't think Tesco Bank ought to have opened the account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Mrs D should pay back the amounts they have borrowed. Therefore, Tesco Bank should:

- Rework the account removing all interest and charges that have been applied.
- If the rework results in a credit balance, this should be refunded to Mrs D along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Mrs D should also remove all adverse information regarding this account from Mrs D's credit file.
- Or, if after the rework there is still an outstanding balance, Tesco Bank should arrange an affordable repayment plan with Mrs D for the remaining amount. Once Mrs D has cleared the balance, any adverse information in relation to the account should be removed from their credit file.

*HM Revenue & Customs requires Tesco Bank to deduct tax from any award of interest. It must give Mrs D a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

For the reasons set out I am upholding Mrs D's complaint. Tesco Personal Finance PLC should put things right in the way I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs D to accept or reject my decision before 7 November 2022.

Emma Boothroyd
Ombudsman