

The complaint

Mrs B says Tesco Personal Finance PLC trading as Tesco Bank irresponsibly lent to her.

What happened

Mrs B's complaint is about a credit card supplied by Tesco. She says the card was unaffordable and that she had a poor credit record. Mrs B wants the interest and charges which were applied to the account refunded.

The account was opened in October 2018 with an initial credit limit of £3200. Tesco says that Mrs B stated that she had income of £1700 per month. It says it checked Mrs B's credit file and found no recent adverse data. Tesco says it noted a default on the credit file but that this was over 3 years prior to the credit card application. Tesco says that Mrs B passed its affordability checks and that she made payments on the account until April 2020.

Our adjudicator upheld the complaint. He didn't think Tesco had carried out reasonable and proportionate checks, and said that if it had done, these checks would have shown that Mrs B wouldn't have been able to make repayments sustainably.

Tesco didn't agree so the complaint has been passed to me for a 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.

The general approach to complaints about unaffordable and irresponsible lending, including the key relevant rules, guidance and good industry practice, is set out on this service's website.

Tesco needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice, this means that it should have carried out proportionate checks to make sure Mrs B could afford to repay what was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and the customers income and expenditure.

There are no set checks that a business has to do, Tesco is free to decide what its lending criteria should be. But it has to complete proportionate checks to ensure that the borrowing is sustainable.

When Mrs B took out the Tesco credit card, she was given a credit limit of £3200. I think this was a significant level of credit to extend to Mrs B, taking into account her financial circumstances. So, I don't think this is a case where less detailed affordability checks would be reasonable.

I've looked at the checks which Tesco carried out. The checks on Mrs B's credit file showed that she had defaulted on £99,900 of borrowing around 33 months prior to the application. In addition to this, there were other previous defaults. I think the amount of borrowing that Mrs

B had defaulted on should've prompted Tesco to have carried out further checks into Mrs B's financial circumstances to assess whether the lending was affordable for her.

I can't be certain of what any further checks would have shown, because I don't know what checks Tesco would've undertaken. So, I have to consider the likelihood of reasonable and proportionate checks showing that Mrs B could repay the lending sustainably. In order for me to do that, I need to look at information that wasn't considered at the time of the application.

Based on what I've seen, it looks as if Mrs B was in payment arrangements for the defaulted debts. She was making both nominal and larger payments every month. I think it's likely that Mrs B would've provided income and expenditure details before entering into the payment arrangements, and the fact that she was making nominal payments towards most of these debts suggests to me that she wasn't in a position to take on more debt. Because of this, I don't think the £3200 credit limit would've been affordable for her.

Mrs B was paying around £600 per month towards her active and defaulted debts. This amount wasn't taken account of in the affordability assessment that Tesco carried out. If it had been, it would've significantly reduced Mrs B's monthly disposable income to a level which I think would've shown that she was unlikely to be able to repay the borrowing in a sustainable manner.

Taking everything into account, I don't think the checks carried out by Tesco were reasonable and proportionate. Further checks would've shown that the lending wasn't affordable for Mrs B.

Putting things right

Because I think Tesco lent irresponsibly, I'm asking it to refund all interest fees and charges applied to Mrs B's credit card. Tesco should also remove any adverse information relating to the account from Mrs B's credit file.

My final decision

My final decision is that I uphold the complaint. Tesco Personal Finance PLC trading as Tesco Bank must:

Rework the credit card balance so that all interest and charges applied from the inception of the account onwards are removed.

If an outstanding balance remains after the rework, Tesco should agree a suitable repayment plan with Mrs B

If the rework means there is no outstanding balance, any balance should be treated as overpayments which should be given back to Mrs B together with 8% simple interest per year on the overpayments from the date they were made to the date of settlement.

Remove any adverse information recorded on Mrs B's credit file in relation to the account.

HMRC require Tesco to deduct tax from the refund of interest. Tesco must give Mrs B a certificate showing how much tax has been taken off if she asks for one.

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

Emma Davy
Ombudsman