

The complaint

Mrs T complained that Tesco Personal Finance PLC, trading as Tesco Bank ("Tesco"), irresponsibly increased the credit limit on her credit card account such that she couldn't afford to repay it.

What happened

Mrs T took out a credit card with Tesco in July 2013, with an initial credit limit of £2,300.00. In February 2015 the credit limit increased to £7,300.00. In April 2016 it went up to £9,000.00 and in April 2017 to £10,300.00. Mrs T is complaining about the increases in 2016 and 2017.

Mrs T told us that she believes this was irresponsible lending and has led her to now have a considerable amount of debt. She said her annual salary was in the region of £19,000 for the two years when the increases were applied, and she already had a large amount of other debt on credit cards, catalogues and car finance. Mrs T thought that Tesco should refund the fees and interest paid.

Tesco said that it had carried out appropriate affordability checks, and told Mrs T that it did not uphold her complaint.

Mrs T then brought her complaint to this service. Our investigator looked into it and thought it should be upheld. Tesco didn't agree and asked for it to be reviewed by an ombudsman.

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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website, and I've taken this into account here.

I've decided to uphold Mrs T's complaint about the credit card limit increases. I'll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks required of a lender, but it needs to ensure the checks are proportionate when considering things such as the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances. So I've considered whether Tesco completed reasonable and proportionate checks to satisfy itself that Mrs T would be able to make the repayments on the credit card account in a sustainable way.

Tesco provided a list of the checks it completed when granting the increases in Mrs T's credit limit. In summary, it said that based on credit reference information and the conduct of Mrs T's account, it was able to determine that she had no unsettled County Court Judgments, bankruptcies, defaults, or internal arrears., and that she never utilised more than

51% of the credit available to her. There were no missed payments, defaults or payment plans with the credit agencies which would show financial difficulty. Tesco used a consumer indebtedness measure from credit reference information, and this was low, and therefore didn't suggest Mrs T was over-indebted. Tesco accepted that the debt-to-income ratio was high but said it didn't reach the point at which it would trigger further checks, or cause the credit limit increases to be declined. Tesco further said it considered Mrs T's disposable income, taking into account rent and living expenses which include food and all bills, as well as existing credit commitments.

On that basis, Tesco said that it considered that both credit limit increases were affordable for Mrs T.

However I'm not satisfied that Tesco carried out sufficient checks before granting the credit limit increases.

We asked Mrs T for copies of bank statements around the relevant times, and she sent in copies of statements for her sole account and joint account with her partner. She also sent in a copy of her credit record. I can see that both bank accounts were regularly in overdraft, albeit within the set limits.

Tesco's affordability assessments for March 2016 and March 2017 showed Mrs T as having a net monthly salary of £1,200 – consistent with the bank statements which show £1,200 to £1,300, and the annual salary (before tax) of about £19,000 that Mrs T mentioned. Mrs T's total debt is listed as £18,530 in March 2016 and £18,937 in March 2017, and the monthly repayments as £463 and £473 respectively. These latter figures appear consistent with what's on Mrs T's credit history. Housing and living expenses are shown as £360 each for both 2016 and 2017. I'm not sure of every item that would be included under these headings, but looking at the bank statements these figures don't seem to be out of line. The assessment then shows Mrs T as having a disposable income of £17 per month at March 2016 and £7 at March 2017.

I accept that Mrs T may have been maintaining payments on her credit commitments, but the level of unsecured debt – higher than Mrs T's net salary – suggests to me that she was already overcommitted. The minimal level of disposable income identified in the affordability assessment suggests that Mrs T had little or no capacity to deal with unexpected expenses or a change in circumstances.

Tesco argued that Mrs T's bank statements didn't seem to be giving a full picture of her finances – it referred to entries relating to another bank account, and it said it wasn't clear where her priority debts were being paid. I've thought about what Tesco has said – but on reviewing the statements again I can see that her priority commitments were being paid from her joint account. Having looked at the information again I'm satisfied that I have enough information on which to base my conclusions.

Taking all this into account, I would've expected Tesco to carry out more detailed income and expenditure checks before increasing Mrs T's credit limit in 2016 and 2017. Had it done so, I think it's likely that such checks would've demonstrated that Mrs T would have been unable to manage the repayments sustainably. I say this because, as I described above, the checks it *did* carry out showed a minimal amount of disposable income, leaving Mrs T with little or no capacity to deal with even a small change in circumstances, and a high level of debt relative to her income. So I think Mrs T has lost out as a result, and therefore I have decided to uphold her complaint.

Putting things right

As I don't think Tesco should have increased Mrs T's credit limit above £7,300, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Mrs T 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, fees, charges and insurances (not already refunded) that have been applied to balances above £7,300.
- If the rework results in a credit balance, this should be refunded to Mrs T 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 April 2016 regarding this account from Mrs T's credit file.
- Or, if after the rework the outstanding balance still exceeds £7,300, Tesco should arrange an affordable repayment plan with Mrs T for the remaining amount. Once Mrs T has cleared the outstanding balance, any adverse information recorded after April 2016 in relation to the account should be removed from her credit file'.

*HM Revenue & Customs requires Tesco to deduct tax from any award of interest. It must give Mrs T 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 I've explained, I've decided to uphold Mrs T's complaint. Tesco Personal Finance PLC should compensate Mrs T as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs T to accept or reject my decision before 16 March 2023.

Jan Ferrari
Ombudsman