

The complaint

Mr G complains that Tesco Personal Finance PLC trading as Tesco Bank ("Tesco") lent to him irresponsibly.

What happened

In January 2015 Mr G opened a credit card account with Tesco. He had an initial account limit of £3,200 which was increased twice over the following years until it reached £8,200 in April 2018. In May 2018 Mr G opened a second credit card account with Tesco which had a limit of £7,700.

Mr G says that Tesco shouldn't have lent to him because he couldn't afford it. He says if Tesco had done checks on him which it should have done it would have realised he had a lot of debt.

Tesco says that it did all the necessary and proportionate checks and these showed that Mr G could afford the credit that was extended to him.

Our investigator thought that Tesco shouldn't have lent to Mr G. They thought Mr G was so indebted elsewhere that Tesco should have realised he would struggle with any more debt. Our investigator said that Tesco should refund any interest and charges paid by Mr G.

Tesco disagreed. It submitted that it wasn't responsible for Mr G sustaining his credit card debt for a long period because it considered he could have afforded to pay more but chose not to.

As Tesco disagreed, the case has been passed to me to make 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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when considered Mr G's complaint.

Tesco needed to take reasonable steps to ensure it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mr G could afford to repay what he 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, Mr G's borrowing history and his income and expenditure.

Tesco says its credit check results didn't show anything negative to suggest it would have been unreasonable to have provided Mr G with the credit. It says its assessment showed that Mr G was in full-time employment with an annual income of about £20,000 (although this is referred to elsewhere as £30,000 which better explains Mr G's net monthly income) and this provided a net monthly income of about £1,800. He had an existing credit card with an outstanding balance of £9,539 and other unsecured lending of £24,842. An assessment of his net disposable income indicated that he had disposable income of just over £300 a month. He had no CCJs, defaults or bankruptcies.

Tesco says that these checks showed that Mr G could afford the repayments on his credit card in a sustainable way.

I've reviewed the outcome of those checks and I disagree with Tesco. Mr G's existing borrowing equated to almost 20 months of his net income (assuming he was earning £30,000). There was evidence that Mr G had taken 17 cash advances on his existing credit card in the previous three months, five of which were in the month before his application for this credit card. This is high cost borrowing and indicates that a consumer doesn't have ready access to other less expensive sources of cash. Mr G's credit rating was low (although it was higher than Tesco's cut off limit, which was very low). If it was assumed Mr G was paying off 5% of his revolving credit each month (that is the lowest percentage I consider reasonable if Mr G were to clear that credit card or catalogue shopping debt in a sustainable manner) and not spending anything more, then the combined cost of his monthly loan, mortgage and credit card payments was over £1,400. This doesn't take account of any other essential expenditure such as utilities, transport, council tax or food.

So while Tesco's check may have been proportionate I don't think it used the information it obtained from them appropriately. I think it should have sought a better understanding of his financial situation before lending to him. It should have queried how he was meeting his existing credit and household costs from his limited income. I think it should have been evident to Tesco that Mr G wouldn't have had the capacity to sustainably repay the account. It follows that I agree with our investigator that Tesco was wrong to lend to Mr G.

Our investigator went into considerable detail about the further credit limit increases on this card. I do not think this is necessary for me to do here, as I have decided the credit should never have been provided to Mr G.

In May 2018, Tesco gave Mr G another credit card, this time with a limit of £7,700. This was in addition to the first credit card which by then had a limit of £8,200, making a total limit across both cards of £15,900.

Tesco has said it doesn't have any evidence of the checks it did for the second card. It relies on the fact that it says checks would have been completed the month before he applied when it gave him a credit limit increase on his first card. But it hasn't provided the full evidence of those checks either. It has just said that he wasn't in arrears, had no defaults, CCJs or bankruptcies and wasn't over his limit. It hasn't provided the same data it supplied this service with for the initial credit card opening. And I know from what Tesco supplied for that first card that arrears and defaults etc did not provide the full picture of Mr G's financial circumstances at that point. I have no evidence to suggest Mr G's financial circumstances had changed significantly for the better up to that point. Indeed, Mr G has provided evidence in the form of bank statements which shows that he was considerably overdrawn in his current account each month in the year leading up to the provision of the second card. So, I am not satisfied Tesco made sufficient checks to establish whether the substantial further provision of credit was affordable for Mr G, or, if it did, I am not satisfied it acted appropriately on the information it obtained from those checks.

In May 2021 Mr G contacted Tesco for support because he was struggling with debt. He filled out an income and expenditure form which Tesco says showed that he and his partner had high net disposable income. Tesco says:

'[Tesco] think[s] rather than truly being in financial difficulty, his gripe is with the interest he's being charged each month.'

In later correspondence, Tesco says that it demonstrated to this service that Mr G's circumstances were only ever improving, and that Mr G was able to pay *'far more than he was willing to.'*

While I find this approach from Tesco quite astonishing, and I do not agree with Tesco's analysis of Mr G's financial situation, I do not think that Mr G's circumstances in 2021 are relevant to whether the lending decisions in 2015 and 2018 were appropriate.

Putting things right

As I don't think Tesco ought to have opened either account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreements. But I think Mr G should pay back the amounts he has borrowed. Therefore, Tesco should:

- Rework the accounts removing all interest and charges that have been applied.
- If the rework results in a credit balance on either or both cards, this should be refunded to Mr G 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 regarding this account from Mr G's credit file.
- Or, if after the rework there is still an outstanding balance, Tesco should arrange an affordable repayment plan with Mr G for the remaining amount. Once Mr G has cleared the balance, any adverse information 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 Mr G a certificate showing how much tax has been taken off if he 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

I uphold Mr G's complaint against Tesco Personal Finance PLC trading as Tesco Bank and direct it to pay compensation as described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 16 November 2022.

Sally Allbeury
Ombudsman