

The complaint

Mr G complains that Tesco Personal Finance PLC trading as Tesco Bank irresponsibly provided two credit card accounts which he couldn't afford the repayments on.

What happened

Mr G was provided with the following credit cards by Tesco:

Card 1 issued 23/09/2016 credit limit £5,700 (no increase in limit)

Card 2 issued 30/05/2017 credit limit £4,150 (no increase in limit)

He quickly ran up the whole balance of card 1 and reached the limit of card 2 in about 6 months. He struggled with the repayments and card 2 was terminated in October 2018 and card 1 in February 2019. Payment arrangements have now been set up for both cards.

Mr G made complaints about irresponsible lending to Tesco particularly pointing out that he had serious gambling problems. It responded that when Mr G applied it asked for information about his income, outgoings and outstanding debts. It didn't verify the income figure declared by Mr G. But Tesco carried out credit checks at the time of Mr G's application for both cards and found they were affordable. It said there was no evidence of any gambling problems from the checks it did.

On referral to the Financial Ombudsman Service our adjudicator said that Tesco shouldn't have issued either card. If Mr G was to be able to make sustainable monthly payments (at 5% of the balances rather than the 3% Tesco assessed) on his revolving credit (credit cards or other credit accounts) he would have had a negative monthly disposable income.

Tesco didn't agree, pointing out that there are no rules that say the percentage figures suggested by the adjudicator should be used in assessing affordability. It further said that it had made over generous allowances for Mr G's mortgage payments in the assessment for both cards.

The matter has been passed to me for further consideration.

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.

Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- Did Tesco complete reasonable and proportionate checks to satisfy itself that Mr G would be able to repay the credit advanced in a sustainable way?
- If not, would those checks have shown that Mr G would have been able to do so?

- Bearing in mind the circumstances at the time of each application, was there a point where Tesco ought reasonably to have realised it was increasing Mr G's indebtedness in a way that was unsustainable or otherwise harmful and so shouldn't have provided further credit?

In reviewing Tesco's evidence of its assessments, I've noted that whilst it gives overall figures for total balances between loans and revolving accounts, these are not broken down. And it hasn't shown us the credit report or summary on which those figures are based. Similarly it hasn't broken down fully its assessment of Mr G's income and expenditure. Despite it saying its assessments were over generous in its allowance for Mr G's mortgage, I can only rely on the actual figures it used to calculate his disposable income.

card 1

According to Tesco's spreadsheet Mr G had loan balances totalling nearly £22,000 and revolving credit balances totalling £14,797. I concur with the adjudicator that a 5% repayment figure for the revolving credit balances should be allowed rather than 3%. This allows for the cards to be paid off within a reasonable time. For example the minimum monthly repayment due on this card was 1% of the balance plus any interest and other charges. Mr G ran up the whole balance on the card almost immediately. I calculate that that would have taken nearly 8½ years to repay assuming he incurred no further credit.

Tesco assessed that Mr G would have had a "*considerable*" £181 monthly disposable income. But Tesco's own calculations add up to just £38 which I think would be quite insufficient.

Using the 5% figure I've mentioned Mr G would have had a negative disposable income. And Tesco's calculations don't appear to have taken into account that Mr G had an overdraft of £2,284 which was rising, and should have shown on any credit assessment.

Bearing all that in mind I don't think that this card was affordable to Mr G and that Tesco didn't make a fair lending decision.

card 2

This card was issued within 8 months of the first card. Yet Mr G had already spent up to the limit on the first card. Moreover I note that he went over limit on that card and missed a payment. While Tesco says a missed payment is not a reason to decline to provide further card, that might be the case if it was a card from a different provider. But with Tesco's knowledge of the way the first card had been maintained I think it was certainly something it should have taken into account.

Mr G had nearly exactly the same outstanding loan balances as at the time of applying for card 1, meaning he hadn't been able to reduce them at all. His revolving balances had increased to £18,148, presumably accounted for by his use of card 1. Tesco calculated that Mr G would have had a monthly disposable income of £72, though I calculate this to be £135.

But this still didn't take account of Mr G's overdraft which by now had risen to over £4,300. It's certainly arguable that if the credit report had shown that increasing figure Tesco should have considered obtaining further information like looking at his bank account. If it had done so, it would have seen that Mr G had spent considerable sums on gambling.

Even without obtaining further information, I don't think this card was shown to be affordable, bearing in mind that Mr G would have had a negative disposable income on Tesco's

calculations when allowing for payments towards his overdraft and the new card. I also take into account that he had already used up most of the credit limit on the first card and missed a payment. I don't think that Tesco has shown this card to be affordable. So it didn't make a fair lending decision.

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, 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 both accounts 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(s), any adverse information in relation to the accounts should be removed from its 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 the complaint and require Tesco to provide the remedy set out under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 9 January 2023.

Ray Lawley
Ombudsman