

The complaint

Mr S complains that Tesco Personal Finance PLC trading as Tesco Bank lent to him irresponsibly.

What happened

In March 2017 Mr S applied for a credit card account with Tesco. Tesco approved the application and gave Mr S an initial credit limit of £250. The credit limit was increased to £600 in December 2017.

Mr S complained that Tesco had lent to him irresponsibly. Tesco didn't uphold the complaint, so Mr S complained to this service.

Our investigator reviewed everything. He thought that the decision to approve the application and give Mr S an account with a credit limit of £250 was fair but said that Tesco hadn't carried out reasonable and proportionate checks before approving the credit limit increase.

Tesco didn't respond to the investigator's view so 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.

We've set out our general approach to complaints about irresponsible and unaffordable lending, including the key relevant rules, guidance and good industry practice, on our website. I've had this approach in mind when considering Mr S's complaint.

Tesco needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice, this meant it should've carried out reasonable and proportionate checks to make sure Mr S could afford to repay what was being lent in a sustainable manner. These checks could take into account a number of things such as how much was being lent, the repayment amount, Mr S's borrowing history and his income and expenditure.

Account opening

I think Tesco carried out reasonable and proportionate checks before opening the account. It reviewed Mr S's credit file and gathered information about his income and existing credit commitments. I don't think the information gathered would have given cause for concern. The credit checks showed that Mr S had two CCJ's and 4 historic defaults, the last one being over 45 months prior to the application. The checks also showed that Mr S had 7 active credit accounts, none of which were in arrears. The other checks carried out by Tesco showed that Mr S had gross annual income of around £19,000.

I don't think it would've been proportionate for Tesco to complete any further checks before opening the account. The information gathered showed that a credit limit of £250 was likely to be affordable for Mr S. This is because the credit checks showed no evidence of financial

difficulties.

Credit limit increase

Tesco has explained that it checked Mr S's credit file and considered the information it already held about his income before it approved the credit limit increase.

Because the credit limit increase was increased by £350 to £600, which is significant in proportion to Mr S's income, I think it would've been proportionate if, in addition to the checks already carried out, Tesco had carried out further checks to find out more about Mr S's income and expenditure, including other credit commitments at the time.

Because of this, I've looked at Mr S's bank statements for the 3 months preceding the credit limit increase. The statements show that Mr S's monthly income was around £1699 with essential expenditure of around £2063. I can see that he was making monthly repayments to several other credit providers. The statements show that Mr S had borrowed money from high cost lenders. Had Tesco looked at this information, it would've seen that Mr S was reliant on borrowing – including high cost borrowing – and that further borrowing was unlikely to be sustainable. Tesco would also have seen that Mr S's expenditure exceeded this income and that the additional credit was unlikely to be affordable.

I think that reasonable and proportionate checks would've shown that Mr S was struggling financially and would be able to make repayments sustainably I'm therefore of the view that the credit limit increase was lent irresponsibly.

Putting things right

Because I don't think Tesco should've increased the credit limit above £250, I don't think it's fair for Mr S to pay any interest or charges on balances exceeding that limit.

Tesco Personal Finance PLC trading as Tesco Bank must:

Rework the account removing all interest fees and charges applied to balances over £250

If the rework results in a credit balance, this should be refunded to Mr S plus 8% simple interest per year calculated from the date of overpayment to the date of settlement.* In addition, any adverse information relating to the agreement must be removed from Mr S's credit file.

If after the rework there is an outstanding balance, Tesco must arrange an affordable repayment plan with Mr S. Once Mr S has cleared the outstanding balance, any adverse information relating to the agreement must be removed from Mr S's credit file.

*HMRC requires Tesco to deduct tax from any award of interest. It must give Mr S a certificate showing how much tax has been deducted if he asks for one.

My final decision

My final decision is that I uphold the complaint. Tesco Personal Finance PLC trading as Tesco Bank must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 13 February 2023.

Emma Davy
Ombudsman