

The complaint

Mr B complains that Tesco Personal Finance PLC ("Tesco"), trading as Tesco Bank, irresponsibly granted him a credit card he couldn't afford to repay.

What happened

In June 2016 Mr B entered into an agreement with Tesco to have access to credit by way of a credit card account. He was given an opening credit limit of £7,000. Mr B had previously opened another Tesco card, in 2009, which had an available credit limit of £8,000.

Mr B says that Tesco didn't complete adequate affordability checks when it opened his second credit card account. He says he was already struggling financially at the time.

Tesco didn't agree. It said that it carried out a reasonable and proportionate assessment to check Mr B's financial circumstances before granting him the card.

Our adjudicator recommended the complaint be upheld. He thought Tesco acted unfairly in approving the opening of the account.

As Tesco didn't agree 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.

Tesco will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don't consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

Before granting the account, Tesco looked into Mr B's financial situation. This included looking at the information about his personal situation included in the application he provided, showing he was homeowner with a mortgage who was working full time.

The searches found that Mr B was generally managing his other credit accounts well, with no arrears, defaults or history of missed payments on his existing borrowing. Tesco assessed Mr B's regular outgoings using average costs data. It then set an opening credit limit based on these factors. It recorded his annual income as £33,000 with a net monthly income of £2,200. It also recorded his total debt as being around £140,000, taking into account his mortgage, existing loans of £17,000 and revolving credit of around £3,400. Based on the data it used for assessing applications like this, Tesco estimated that Mr B had to make mortgage repayments of £660 per month, loan and revolving debt repayments of £510 and pay for living expenses of £660. This would leave Mr B with around £300 of disposable income, taking into account estimate monthly repayments of £172 on his new card.

Our adjudicator also looked into Mr B's financial situation, taking into consideration the total credit that would have been made available to him by Tesco on his two cards, which was £15,000. He also relied on a lower mortgage figure of £460 rather than the figure of £660 that Tesco had estimated in its calculations. Allowing for sustainable repayments on the two Tesco cards, our adjudicator thought the total maximum figure for sustainable payments would be £750 per month. That would leave him requiring £2,320 per month to meet all his credit commitments – which is more than his net monthly income of £2,200. Our adjudicator therefore concluded that Mr B wasn't in a position to sustainably use the borrowing that Tesco was making available to him.

Tesco disagreed with our adjudicator's uphold finding. It said it considered that it was reasonable to allow a 3% deduction from Mr B's monthly income to fund his revolving debt. It also disagreed with our adjudicator having decided to use the higher percentage figure of 5% for this purpose. Tesco also disagreed with Mr B's monthly payments being calculated based on his using all of the available credit – that is, using the entirety of the £15,000 of credit that Tesco had made available.

I think the key issue in this complaint is the question of whether Mr B would be able to pay back what he might owe in a reasonable period of time. From what I've seen, I am not convinced that Tesco took adequate steps to ensure that the credit was both affordable and sustainable for Mr B.

I say this given that Tesco's calculations don't take into consideration that by having two Tesco cards, Mr B would have access to a level of unsecured credit that was far greater than his current outstanding balance. It was open to him, if he wished to, to immediately increase his level of indebtedness by a very substantial amount. Tesco needed to take that into consideration alongside what it already knew about Mr B's circumstances when assessing affordability. This would include thinking about any reasonably foreseeable changes in his level of expenditure – such as increased indebtedness on the total credit Tesco had granted him access to.

Based on his income and existing financial commitments, I agree that Mr B wouldn't have had enough disposable income available so as to make sustainable payments with the level of exposure available to him from both cards. I therefore agree with our adjudicator that Tesco ought to have seen from the checks it carried out at the time that the opening credit limit was unlikely to have been affordable.

It follows that I don't think Tesco should have granted Mr B the £7,000 credit limit when opening this account, taking his total available credit limit with Tesco up to £15,000. Had the account not been opened, Mr B would only have had access to the credit limit of £8,000 that was available on the first card. So in order to put Mr B back into the position he'd be in had he not been granted the second card, Tesco will need to calculate its redress based on the assumption that Mr B would only have used the credit limit available to him on the first credit card and that it wouldn't be reasonable for Tesco to charge any interest or charges on spending that exceeded that credit limit of £8,000.

Tesco hasn't been clear about whether the interest rate for the second card was 18.9% or 15.9%. However, whichever it is, a fair remedy will mean that any re-work on the interest charged to Mr B should be at 15.9% as that is the rate that would have been applied to his first credit card and the only interest rate he would have been charged if the second card had never been opened.

I therefore set out below what Tesco needs to do.

Putting things right – what Tesco needs to do

As my finding is that Tesco ought not to have opened this account, I don't think it's fair for it to be able to charge any interest or charges for the extra £7,000 credit Mr B was given. From what I've seen and been told, the interest rate on this second card was likely to have been 18.9%, whilst the rate on the first card he was granted was 15.9%. When calculating redress for this card Tesco therefore needs to look at Mr B's spending on both accounts and re-work them as if all the spending had occurred on the first card.

But I also think Mr B should pay back the amounts he has borrowed. Therefore, Tesco should:

- For the level of combined spending that is more than £8,000 across both accounts, being the credit limit Mr B was granted with the first card, Tesco will need to re-work each account by removing all interest and charges that have been applied.
- For any combined balances up to £8,000 across both accounts, Tesco should re-work the accounts so that only interest at 15.9% is charged. This being the rate applicable to first credit card and what Mr B would have had to repay if the second card had never been opened.
- If the rework results in a credit balance, this should be refunded to Mr B 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 B's credit file.
- Or, if after the rework there is still an outstanding balance, Tesco should arrange an affordable repayment plan with Mr B for the remaining amount. Once Mr B has cleared the balance, any adverse information in relation to the account should be removed from their credit file.

*HM Revenue & Customs requires Tesco to deduct tax from any award of interest. It must give Mr B 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

For the reasons set out, I'm upholding Mr B's complaint. Tesco Personal Finance PLC should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 20 April 2023.

Michael Goldberg
Ombudsman