

The complaint

Mr E says Tesco Personal Finance PLC irresponsibly lent to him.

What happened

Mr E opened a credit card with Tesco on 23 March 2017. He was given a £4,300 credit limit. The account defaulted in July 2019 and is being repaid through Mr E's debt management plan.

Mr E says adequate checks were not carried out, there were indicators on his credit record that he would not be able to afford additional credit. He went on to borrow more and more, ending up in a cycle of debt that he could not break. This has had an unfair and detrimental impact on him and his family. He asks for all interest and charges to be refunded, all references to the card to be removed from his credit file and for any remaining balance after the refund to be written off.

Our adjudicator upheld Mr E's complaint. He said Tesco's checks were not proportionate and had it carried out better checks it ought to have realised the credit would not be sustainably affordable for Mr E. It also seems to have used Mr E's gross income for its assessment.

Tesco disagreed with this assessment and asked for an ombudsman's review. It said it even using Mr E's net income the loan would have been affordable. And as it seems Mr E's actual mortgage payment was lower than it estimated, he would have more disposable income. It could not have known his travel costs were so high without doing a disproportionate level of checks. But the key issue, is that Mr E's actual income was much lower than he declared and had he provided accurate information it would have declined his application. But that means it is unfair to say Tesco lent irresponsibly, rather it was given false information.

It also pointed out that Mr E had most likely saved on interest payments as a result of the balance transfers and money transfers he made onto this account and this should be considered.

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. Our approach to complaints about irresponsible lending is set out on our website and I have followed it here.

Before providing the credit card to Mr E, Tesco was required to carry out proportionate checks to ensure the lending was affordable. There isn't a specific set of checks that need to take place, but Tesco was required to undertake reasonable and proportionate checks taking into consideration, amongst other things, the value and term of the lending.

To reach a decision on this case I have therefore considered if Tesco's checks were proportionate; if so, did it make a fair lending decision; and if not, what would better checks most likely have shown.

In this case, before providing the credit card, Tesco asked for information from Mr E about his income, residential status, employment status and mortgage payment. It estimated his living costs using national statistics. It carried out a credit check to understand his credit history and existing credit commitments. Based on these checks Tesco concluded the loan was affordable as Mr E would be left with £723 disposable income each month.

I am not persuaded these checks were proportionate in the circumstances. From its initial checks, as detailed above, Tesco learnt that Mr E had £43,411 of unsecured debt. It calculated he was spending £1,029 a month to service this debt. I would flag here that we would expect it to consider the cost of an applicant sustainably repaying any revolving debt, and not just meeting the minimum payment, so this should have been £1,251.

Even based on the inflated declared income (with the bank's error of using a gross figure and not salary after deductions) that meant it understood Mr E was spending 26% of his income on credit – excluding his mortgage. Had it used a net income figure that rose to 41%. This is a significant proportion of a salary and ought to have concerned Tesco. So, in these circumstances I think Tesco needed to complete a fuller financial review. Had it done so it would have discovered Mr E's actual monthly income was around £2,400. And from this, given it substantially altered its affordability assessment, it ought to have realised there was a high risk the credit would not be sustainably affordable.

Tesco argues it was given false information, and whilst this is true, it does not change its obligation to carry out proportionate checks before lending. There were enough signs in its initial checks that it needed to do more to get the assurances it needed that Mr E could afford to take on more credit without needing to borrow to repay or suffering some other adverse financial consequences. It failed to do this and so I find it lent irresponsibly.

It follows I think Tesco was wrong to give the credit card to Mr E.

Putting things right

I think it's fair and reasonable for Mr E to repay the capital that he borrowed, because he had the benefit of that money. But he has paid interest and charges on a card that shouldn't have been provided to him. Tesco must put this right.

It argues that it's possible Mr E did not suffer a financial loss as its credit card gave balance and money transfer opportunities to Mr E, but this is an assumption and we cannot know what Mr E might have done had he not been approved for this card.

It should:

- Rework Mr E's account refunding all interest and charges applied.
- If an outstanding balance remains on the account once these adjustments have been made Tesco should contact Mr E and the administrator of his debt management plan to agree how this changes their arrangement. Mr E asked that any balance be written-off, but I have found no reason to instruct this. Once Mr E has repaid the outstanding balance, Tesco should remove any adverse information recorded on Mr E's credit file.
- If the effect of removing all interest and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned

to Mr B, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. It should also remove any adverse information from Mr E's credit file.†

†HM Revenue & Customs requires Tesco to take off tax from this interest. Tesco must give Mr E a certificate showing how much tax it's taken off if he asks for one.

My final decision

I am upholding Mr E's complaint. Tesco Personal Finance PLC must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 22 February 2023.

Rebecca Connelley
Ombudsman