

The complaint

Mr E says Tesco Personal Finance PLC, trading as Tesco Bank, irresponsibly lent to him.

What happened

Mr E had a Tesco Bank credit card and was given three credit limit increases - £2,000 in April 2017; £2,000 in April 2018 and £3,000 in June 2019.

Mr E says the limit increases were not affordable, he already had other cards and loans. He says Tesco Bank never asked him for any updated financial information, such as how much he earned or how much his bills were. He was left needing to spend over £1,000 each month on his debt and he was just using his Tesco card to repay other cards.

Our adjudicator upheld Mr E's complaint in part. He said the checks were proportionate for the first increase and the decision was fair. He thought better checks ought to have been done for the second increase but Mr E had not sent in any financial information so he couldn't say better checks would have shown the increase to be unaffordable. He concluded though that Tesco Bank was wrong to give the third increase as it knew Mr E's income had fallen substantially by then, and his indebtedness had increased.

Tesco Bank disagreed with this assessment and asked for an ombudsman's review. In summary, it said Mr E never showed any signs the credit was unaffordable. Mr E used the credit for balance transfers, rarely used the increased limit and paid the balance down rapidly. It argues this type of card usage does not show the limit increases were detrimental for Mr E.

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 increasing Mr E's credit limit 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 at the time of each increase; 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 additional credit, Tesco Bank says it reviewed updated information from the credit reference agencies; checked Mr E's account history and

undertook affordability checks. It then mailed Mr E about the increases; he did not opt out. Before each limit increase went live Tesco Bank says it checked that Mr E's circumstances had not changed. It has not shared the results of all these checks as some are no longer available, but it has confirmed there was no external adverse data on the credit checks. And that Mr E's monthly income in March 2017 was £5,904; £2,897 in April 2018 and £1,667 in June 2019.

April 2017 limit increase to £5,200

Having considered the cost of making sustainable monthly repayments relative to Mr E's income, I think the checks carried out were reasonable. And, based on the results of the checks I have had sight of, the lending decision was fair. Mr E had a low level of debt compared to his income and was up to date on all his existing credit.

April 2018 limit increase to £7,200

I don't think Tesco Bank carried out proportionate checks for this increase. I say this as it could see Mr E's income had fallen significantly versus the prior year, so I think it ought to have completed a fuller financial review to get the assurances it needed that he was financially stable. We asked Mr E for some information to help us recreate what better checks would most likely have shown Tesco Bank. He did not submit any evidence to allow me to do this so I can't fairly conclude that the lending was unaffordable.

June 2019 limit increased to £10,200

Again, and for similar reasons, I don't think Tesco Bank carried out proportionate checks for this increase. But I won't comment further on this as even based on the information it did gather, I don't think it made a fair lending decision. By this time Tesco Bank knew Mr E's monthly income had fallen again to £1,667 and that his overall indebtedness had doubled over the last two years to £11,249. So it ought to have been concerned that further increasing his limit would put Mr E in the position where he would have to spend a large proportion of his income on repaying debts. And it should have realised there was a high risk this would not be sustainable.

Tesco Bank argues that the way Mr E used the credit shows it caused no detriment by increasing his limit. But this does not change my conclusion. When it increased his limit, it did not know how Mr E would use the credit, and equally it does not know how he repaid the balance.

It follows I don't think Tesco bank should have given Mr E the third credit limit increase.

Putting things right

As I don't think Tesco Bank should have increased Mr E's credit limit above £7,200, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, as Mr E had the benefit of the money he spent on the account it is fair he should've repaid the capital. Therefore, Tesco Bank should:

- Rework the account to ensure that from June 2019 interest is only charged on the first £7,200 outstanding, all late payment and overlimit fees should also be refunded.
- If the rework results in a credit balance, this should be refunded to Mr E along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement.
- If an outstanding balance remains on Mr E's account once all adjustments have been made Tesco Bank should contact Mr E to arrange a suitable repayment plan for

this.

- Tesco Bank should also amend Mr E's credit file to remove any adverse information recorded from June 2019 to date.

*HM Revenue & Customs requires Tesco Bank to deduct tax from any award of interest. It must give Mr E a certificate showing how much tax has been taken off if he asks for one.

My final decision

I am upholding Mr E's complaint in part. Tesco Personal Finance PLC, trading as Tesco Bank, 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 17 April 2023.

Rebecca Connelley
Ombudsman