

## The complaint

Mrs H says Tesco Personal Finance PLC, trading as Tesco Bank, irresponsibly lent to her.

## What happened

Mrs H took out a credit card from Tesco Bank in November 2014. She was given a credit limit of £3,400. This was increased to £5,400 in February 2017 and to £6,400 in February 2018.

Mrs H says the card was mis-sold to her as it was unaffordable. She had to take out other cards and loans to manage her repayments and this has affected her physically, mentally and financially.

Our investigator upheld the complaint in part. She said the initial lending decision was not fair, but Tesco Bank was not wrong to give the two credit limits increases as Mrs H's income had significantly increased by then.

Both parties asked for an ombudsman's review. Tesco Bank said, in summary, its calculations showed Mrs H would have enough disposable income to sustainably repay the credit. And the way she has managed her account supports this conclusion – she has at times made large repayments. This shows that the investigator's assessment is flawed. The card has caused no detriment to Mrs H.

Mrs H said she still felt Tesco's checks were not thorough enough. She had significant credit commitments, including a mortgage, and she only paid more than the minimum payment by borrowing more elsewhere.

I reached a different conclusion to the investigator so I issued a provisional decision. An extract follows and forms part of this final decision. I asked both parties to send any comments or new information by 16 March 2023.

### *Extract from my provisional decision*

*I can see Tesco Bank asked for Mrs H's income, employment status and residential status when she applied for the card. It estimated her living costs using data from the Office for National Statistics. It carried out a credit check to understand her existing credit commitments and credit history. It took into account a proportion of the total mortgage payment that its checks showed. Based on these checks Tesco Bank approved Mrs H's application and concluded a limit of £3,400 would be affordable for her.*

*I think these checks were proportionate given the type and value of the lending, but I don't think Tesco Bank made a fair lending decision based on the results of the checks. I'll explain why.*

*When she applied Mrs H declared a gross annual income of £10,000 and that she worked part-time. Tesco Bank used a net monthly income of £900 for its assessment. It could see she had very little debt, except for a mortgage, and no adverse data on her credit file. The*

credit check showed she was making monthly mortgage payments of £729 a month, Tesco Bank used a lower figure of £270. It assumed her living costs were also £270 and that she would need to spend £84 each month to repay this card. And so she would have net disposable income of £276.

Our investigator challenged using £270 for Mrs H's housing costs. And I agree Tesco Bank should not have ignored the result of the credit check. Tesco Bank argues that if Mrs H was paying the mortgage in full it is reasonable to assume her husband covered the other household costs and I find this to be fair. Tesco Bank said that the card then remained affordable as based on those revised assumptions Mrs H would have £113 net disposable income a month.

I agree however with the investigator's point that at least £102 needs to be allocated as the monthly cost of this new card if Mrs H was to repay it within a reasonable period of time. Using her declared income of £900, the mortgage cost as returned from the credit reference agency of £729 and the cost of this card at £102 this means Mrs H would be left with just £69 a month for unexpected costs and seasonal expenses. This is not sustainable and so I find Tesco Bank was wrong to give the card with a £3,400 limit to Mrs H.

Tesco Bank argues that Mrs H's account management shows this finding to be flawed – she often made large repayments, but it does not know how she did this. And Mrs H's testimony confirms that she borrowed to repay, and was just moving debt around.

*The credit limit increases in February 2017 and 2018*

Our investigator concluded that as Tesco Bank's checks at the time of each increase showed Mrs H's income had increased significantly it was not wrong to increase her limits.

I can see Tesco Bank checked Mrs H's income with one of the credit reference agencies before increasing her limit – and it had increased substantially. Both checks showed Mrs H's income had increased to around £3,600. But I find that this four-fold increase in income in a two-year period should have triggered an additional check, such as asking for a pay slip. The requirement on the lender is not just to gather the right information but to respond to it appropriately. I haven't seen any evidence it did that here.

To understand what better checks would have shown Tesco Bank, I have checked Mrs H's salary for the three months prior to each limit increase using bank statements. This shows it averaged £902 a month prior to the increase in 2017 and £884.98 in 2018. In addition, she received monthly benefits of £82.80 in 2017 and £137.60 in 2018. Taking into account that a sustainable monthly repayment on this card after the first increase would be £162 and £192 after the second, for the same reason as explained above for the initial limit, I think Tesco Bank was wrong to give the limit increases to Mrs H. I find she would not be left with a sustainable level of net disposable income, particularly taking into account she had dependents.

I anticipate that Tesco Bank will highlight that Mrs H continued to make repayments over the minimum required and then cleared her balance in full. But as I have said earlier, it did not know she did this without suffering other adverse financial consequences (although arguably it should have seen from the bureau data that her indebtedness was steadily increasing over the life of the card), so this does not change my conclusion.

I have not found that Tesco Bank acted unfairly or unreasonably in some other way towards Mrs H.

I then set out what Tesco Bank would need to do to put things right if I went on to uphold

Mrs H's complaint.

Mrs H responded, accepting the provisional decision. Tesco Bank did not reply.

### **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 unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website.

As neither party sent in any new evidence or comments I have no reason to change the findings or outcome I set out in my provisional decision.

It follows I think Tesco Bank was wrong to offer the credit card to Mrs H, and to then increase its limit twice.

### **Putting things right**

Mrs H's credit card account is now settled and closed. It is fair that Mrs H has repaid the capital she borrowed as she had the benefit of that money. But she has also paid interest and charges on credit that should not have been given to her.

So Tesco Bank must:

- Refund all interest, fees and charges applied Mrs H's card.
- Return them to Mrs H along with 8% simple interest† from the date they were paid until the date of settlement.
- Amend Mrs H's credit file to remove any adverse information recorded.

† HM Revenue & Customs requires Tesco Bank to take off tax from this interest. Tesco Bank must give Mrs H a certificate showing how much tax it has taken off if she asks for one.

### **My final decision**

I am upholding Mrs H's complaint. 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 Mrs H to accept or reject my decision before 17 April 2023.

Rebecca Connelley  
**Ombudsman**