

The complaint

Mr S complains that Tesco Personal Finance PLC (“Tesco”) irresponsibly granted him a credit card he couldn’t afford to repay.

What happened

In April 2017 Mr S 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 £2,400.

Mr S got into difficulty with meeting his monthly repayments. He made his last monthly payment on the card in December 2018. The account was passed to a third party in in August 2019.

Mr S says that Tesco didn’t complete adequate affordability checks when it opened his credit card account. He says he was unable to meet the monthly payments and was already struggling financially at the time.

Tesco didn’t agree, saying that it carried out a reasonable and proportionate assessment to check Mr S’s financial circumstances before granting him the credit. But as a gesture of goodwill it refunded all interest and charges and used the refund – totalling £337.60 - to reduce the outstanding balance on the account held with the third party. Mr S doesn’t accept this. Instead, he wants Tesco to repurchase the debt and remove all adverse information from his credit file.

Our adjudicator recommended the complaint be upheld from opening. She also thought that once the balance was cleared, Tesco should remove all adverse information relating to the account from Mr S’s credit file.

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 S’s financial situation. This included looking at the information about his income and using credit bureau data to find out more about his financial circumstances. Tesco saw that whilst Mr S had no recent defaults with existing credit, or other adverse markings on his credit record, he’d had two county court judgments recorded against him almost four years earlier.

I've seen from the statistical data it used when assessing Mr S's application, that Tesco recorded Mr S as being a homeowner with a mortgage and earning a gross annual income as £60,000 from his self-employed occupation. I've seen that it also relied on information from Mr S that his net monthly income was £1,000. It's not clear to me what if any steps were taken by Tesco to verify Mr S's income, which seems to be inconsistent with the figure he gave for annual gross income.

Tesco also used credit bureau information to calculate that Mr S owed around £3,500 in unsecured credit and around £87,000 by way of his mortgage. Tesco then arrived at a disposable income figure of £278 by estimating Mr S's mortgage payment as being £300, his existing credit payments at £87 and his remaining living expenses as £300, also allowing £36 per month for the new credit. It then set the opening credit limit of £2,400 based on these factors.

Whilst I think Tesco gathered reasonable evidence about Mr S's income and credit history – although as I've said, I think it should have taken steps to verify his income - it doesn't automatically mean it made a lending decision that was fair overall. So, I've thought about what the evidence and information showed.

I've noticed that the figures used by Tesco for assessing Mr S's mortgage costs, being £300, was lower than the figure of £450 Mr S had given and the credit bureau figure of £409. Similarly, Tesco allowed £87 for what is described as loan repayments and didn't use the figure of £104 provided by the credit bureau for revolving credit. Given that Mr S had nine active credit accounts at the time, it's not clear how the figure allowed for loan repayments, but none for credit, properly fits in with his overall financial situation. I've seen that the figure of £36 per month for repaying the credit on the new card was based on assumed repayment level of 1.5% of the full credit limit. Mr S reached this level with his monthly statement in September 2017. He then went on to exceed it as he got into further financial difficulty.

I agree with our adjudicator that a more sustainable monthly repayment of say 5% of the outstanding balance, would have meant him making a monthly repayment of £120. Based on the figures produced by the credit check Tesco carried out, I also agree it's likely that Mr S would only just be able to meet his existing credit commitments and daily living expenses and so would be left with no or very little disposable income after that.

I'm therefore unable to agree with Tesco's figure of £278 as being the sum that would without question be available to Mr S by way of disposable income each month. Rather, I think it's very likely that Mr S wouldn't have had enough disposable income if he were to be sustainably managing his new credit card alongside his existing significant level of financial commitments.

Having taken these issues into consideration, I think there was a very real risk that Mr S was likely to have been experiencing additional pressure on his monthly costs that could easily have led to a deterioration in his financial circumstances – and in fact did. I therefore agree with our adjudicator that Tesco's assumptions about Mr S's income and expenditure raise an important concern about the affordability of the account.

To summarise, I think it would have been proportionate for Tesco to have gained a more thorough and accurate understanding of Mr S's financial circumstances before giving him the

credit. So I agree that the checks that Tesco carried out at the time weren't enough to show that the credit was likely to have been affordable.

It follows that I don't think Tesco should have granted Mr S this account.

Putting things right – what Tesco needs to do

As I don't think Tesco ought to have opened the account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Mr S should pay back the amounts he has borrowed. Therefore, Tesco should:

- Rework the account removing all interest and charges that have been applied.
- If the rework results in a credit balance, this should be refunded to Mr S 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 Mr S's credit file.
- Or, if after the rework there is still an outstanding balance, Tesco should arrange an affordable repayment plan with Mr S for the remaining amount. Once Mr S has cleared the balance, any adverse information in relation to the account should be removed from his credit file.

Given that Tesco sold the outstanding balance on this account to a third party in August 2019, it either needs to buy the account back from the third party and make the necessary adjustments; pay an amount to the third party so it can make the necessary adjustments – which I understand may have already happened; or pay Mr S an amount to ensure that it fully complies with this direction.

*HM Revenue & Customs requires Tesco to deduct tax from any award of interest. It must give Mr S 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 I've set out, I'm upholding Mr S'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 S to accept or reject my decision before 12 July 2023.

Michael Goldberg

Ombudsman