

The complaint

Mr T complains that Tesco Personal Finance PLC trading as Tesco Bank (Tesco) irresponsibly issued a credit card to him, and increased the credit limit, which he couldn't afford the repayments on.

I appreciate that he made a joint complaint with his wife, but as the account is in his name alone, he is the appropriate complainant.

What happened

Mr T was provided with a credit card by Tesco in August 2009. The initial credit limit and increases in that limit are shown below:

	Date	Credit limit
Account open	Aug 2009	£4,600
1 st increase	Sept 2012	£6,600
2 nd increase	Aug 2013	£8,600
3 rd increase	Feb 2015	£10,600
4 th increase	Oct 2017	£12,600
5 th increase	Dec 2018	£14,600

He first complained to Tesco in July 2022. He said that he had difficulty in keeping up with the repayments. His wife has health problems and had recently lost her job. He thought that Tesco shouldn't have approved any increase in the credit limit as he already had loans and other credit cards.

Tesco said it carries out checks before credit limit increases:

1. Taking into consideration information supplied regarding circumstances (it wasn't notified of any changes)
2. Reviewing and taking into consideration information found with the Credit Reference Agencies (CRA's)
3. Reviewing and taking into consideration account history
4. Affordability checks are built in as part of its credit lending criteria.

It asked for details about income, outgoings, and outstanding debts with other lenders during the original application. Whilst it didn't obtain any evidence of the income, there would be no

obligation for it to do so. It said it is reasonable for a business to work on the basis that the information they are being provided with is truthful.

Tesco had no records of its checks prior to the October 2017 limit increase. For that increase it said that after reviewing the account conduct and information held at the CRA's, it was happy to increase Mr T's credit limit. it couldn't find any error with the actions it had taken.

On referral to the Financial Ombudsman Service our Adjudicator said that Tesco Bank shouldn't have increased the credit limit to £12,600 as sustainable monthly repayments towards that and his other debts took up a significant proportion of Mr T's income. She said as Tesco shouldn't have increased the limit beyond £12,600 it should refund all interest and other charges applied to the account above that limit.

Tesco didn't agree. It believes it's clear that its checks were reasonable and proportionate, with every indication that Mr T would be able to support a credit limit increase on both occasions (4th and 5th increase). In particular it didn't agree that it would be reasonable to apply a minimum payment of 5% a month in respect of his credit debts including the Tesco debt. It said a 3% figure is appropriate for revolving (credit card/credit account) debts.

The matter has been passed to me for further consideration.

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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've taken that approach into account in considering Mr T's complaint.

So, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks a lender is required to carry out, but it needs to ensure the checks are proportionate when considering things like: the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances. As a lending relationship continues over time and the level of credit increases, lenders may need to obtain further information from a borrower to check whether they're lending responsibly and that the repayments are sustainable for the customer.

Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- Did Tesco complete reasonable and proportionate checks to satisfy itself that Mr T would be able to repay the credit advanced in a sustainable way?
- If not, would those checks have shown that Mr T would have been able to do so?
- Bearing in mind the circumstances at the time of each application, was there a point where Tesco ought reasonably to have realised it was increasing Mr T's indebtedness in a way that was unsustainable or otherwise harmful and so shouldn't have provided further credit?

initial issue and credit limit increases in September 2012 and August 2013 inclusive.

Tesco has no information concerning the credit checks carried out in respect of the issue of

the card or the September 2012 and August 2013 increases. It's not required to retain such records more than six years after the lending decisions in respect of the issue of the card or credit limit increases. But it says that Mr T would have passed its financial assessments. Mr T hasn't been able to provide bank statements or details of his debts or income. In light of that I can't say whether or not Tesco made fair lending decisions in respect of the original issue of the credit card or the credit limit increases in September 2012 and August 2013.

credit limit increase in February 2015

This was an increase to £10,600, from £8,600. Tesco isn't able to produce any records of its checks but says that it carried out a review of Mr T's circumstances before it agreed to extend further credit to him. It said Mr T had no bankruptcy, debt management program or county court judgements, there were no accounts in default or arrears. The review showed he had external debts of around £51,900. I have seen no details of Mr T's income and expenditure, nor any records of his debts or income at this time. Mr T hasn't been able to produce any bank statements. So, while, on the face of it Mr T had a high level of debt, I haven't seen any documentary evidence to show he wasn't managing that or that he couldn't afford the increase in credit limit. So I can't make a finding as to Tesco's lending decision in respect of this credit limit increase.

credit limit increase in October 2017

This was an increase to £12,600. (from £10,600). Mr T had around £36,150 of external credit, which, with the new limit, our Adjudicator said Mr T was potentially liable for paying £2,434 a month on the basis of paying 5% of his outstanding balances each month. With a monthly mortgage payment of £719 our Adjudicator calculated that, he would be paying around £3,156 a month on those debts alone out of an income of £3,470, without taking account of his other committed and everyday expenditure.

Tesco said this was unrealistic. It believes a 3% payment for unsecured debts would be a reasonable figure. And it says the outstanding debt included that owed to Tesco. It has produced the following calculations:

Monthly net income	Internal and external debt	3% for unsecured debt payments	30% of income for living expenses	Mortgage payment	Net disposable income
£3,472	£36,157	£1,084.71	£1,041.60	£719	£626.69

Firstly, our view on payments for revolving credit is that a 5% monthly payment is realistic in order to give the consumer a prospect of paying off the credit within a reasonable period of time. Secondly I think that the maximum payment for the entire credit limit should be taken into account. I say this in particular because I would observe that in the month prior to the credit limit increase, Mr T's balance went up to £7,498 from £5,859 the month before. As I shall set out below, Mr T had almost reached this new credit limit in November 2018

So, on a likely overall unsecured debt of £42,957 (£36,157 less Tesco balance of £5,859, add credit limit £12,600), Mr T was potentially liable for a monthly payment of £2,148, just to service his debts, around 61% of his income. Whilst I note that he kept up the monthly payments on his account, I think the increase was clearly unaffordable. So Tesco should refund all interest payments and other charges above the £12,600 limit.

credit limit increase in December 2018

This was an increase to £14,600. Mr T's income had gone down by over £200 a month. But his internal and external debt had (according to Tesco's figures) increased by over £3,400. In November 2018, the balance on the Tesco card had increased to £12,379. Whatever checks Tesco may have done in respect of this new limit, I think, from the information it had obtained, it was unaffordable. I note that his balance increased to £13,746 by April 2019. He paid this off, but the balance reached over the £14,600 limit by September 2019. Whilst Tesco couldn't necessarily predict that would happen, I think all the indications were there from the previous use of his card and the increase in indebtedness that this was a real possibility. I think this increase was unaffordable.

So, for the limit increases for which we have evidence of Mr T's income, expenditure and use of his account, I think Tesco shouldn't have approved those increases, above the £12,600 limit.

Putting things right

As I don't think Tesco should have increased Mr T's credit limit above £12,600, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Mr T has had the benefit of all the money he spent on the account so I think he should pay this back. Therefore, Tesco should take the following actions:

- Rework the account removing all interest and charges that have been applied to balances above £12,600.
- If the rework results in a credit balance, this should be refunded to Mr T 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 recorded after 17 October 2017 regarding this account from Mr T's credit file.
- Or, if after the rework the outstanding balance still exceeds £12,600, Tesco should arrange an affordable repayment plan with Mr T for the remaining amount. Once Mr T has cleared the outstanding balance over £12,600, any adverse information recorded after 17 October 2017 in relation to the account should be removed from his credit file.
- Tesco should arrange an affordable repayment plan with Mr T for any remaining amount.

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

I uphold the complaint in part and require Tesco Bank to provide the remedy set out under "Putting things right" above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr T to accept or reject my decision before 26 July 2023.

Ray Lawley
Ombudsman