

The complaint

Mr R complains that Tesco Personal Finance PLC trading as Tesco Bank lent irresponsibly when it approved his credit card application and later increased the credit limit.

What happened

In June 2017 Mr R applied for a credit card with Tesco Bank. In his application, Mr R said he was a tenant and employed with an income of £32,777 a year. Tesco Bank carried out a credit search and found Mr R had around £6,600 in unsecured credit in his name. There was no evidence of any adverse information or missed payments on Mr R's credit file. Tesco Bank says it applied its lending criteria and approved a credit card with a limit of £250.

Mr R used the credit card and in December 2017 Tesco Bank increased the credit limit to £600. The credit limit was increased to £900 in August 2018. Tesco Bank says that each time it increased Mr R's credit limit it checked his credit file and looked at his account history. Tesco Bank says the credit limit increases were approved in line with its lending criteria.

Mr R has told us that the cost of maintaining his credit became too much and in 2019 he entered into a debt management plan (DMP). That resulted in the Tesco Bank credit card being closed at default in April 2019. Mr R has maintained payments to the credit card via his DMP since.

Last year, Mr R complained that Tesco Bank had lent irresponsibly when it approved his credit card and later increased the credit limit. Tesco Bank issued a final response but didn't agree it had lent irresponsibly and didn't uphold Mr R's complaint.

An investigator at this service looked at Mr R's case and upheld it in part. Whilst they didn't think Tesco Bank had acted unfairly by approving the application and later increasing the credit limit to £600, the investigator thought Tesco Bank had lent irresponsibly when it approved the credit limit increase to £900 in August 2018. Tesco Bank didn't agree with the investigator's view so Mr R's complaint has been passed to me to make a 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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've had this approach in mind when considering what's fair and reasonable in the circumstances of this complaint.

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, it just 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.

Tesco Bank has provided the information it used when it assessed Mr R's original application. I can see Mr R declared an income of £32,777 and Tesco Bank used a net monthly figure of £2,200. Tesco Bank applied estimated figure to take Mr R's expenditure on rent and day to day living costs to the application and found that his disposable income showed a credit card with a limit of £250 was affordable. I've taken the information available into account and I'm satisfied Tesco Bank did complete reasonable and proportionate checks when assessing Mr R's credit card application. I haven't been persuaded that Tesco Bank lent irresponsible at this point.

In December 2017 Tesco Bank increased the credit limit to £600. Tesco Bank completed a credit check and found Mr R's unsecured credit had increased from £6,600 to £21,500. Mr R's credit file shows he took a loan which is why his outstanding balances increased. Tesco Bank says there was no new adverse credit recorded and that the credit limit was approved in line with its lending criteria. I think it's fair to say that the level of increase was reasonably modest and Mr R's use of his credit card shows he was making more than the minimum payment in some months. Whilst I note Mr R had taken out a large loan after the original application was approved, I think the decision to proceed with the credit limit increase using the information available was reasonable in the circumstances. Overall, I'm satisfied Tesco Bank did complete proportionate checks before increasing Mr R's credit limit to £600. I haven't been persuaded Tesco Bank lent irresponsibly.

Tesco Bank increased Mr R's credit limit to £900 in August 2018. By this point, the information included in Mr R's application was around 20 months old. Mr R's credit file also painted a different picture to when he applied as he had secured another loan, this time for around £10,000. Tesco Bank's case file shows it was aware Mr R owed around £34,000 at the point it increased his credit limit in August 2018 but says the income figure it used showed the increase was affordable. Tesco Bank has told us it used bureau data and obtained an estimated net monthly income figure of £4,589 to base its lending decision.

Whilst I understand Tesco Bank used bureau data to reach a net monthly income figure, I think the increase in Mr R's unsecured borrowing should've caused it to consider completing more comprehensive checks. There are a range of options that were open to Tesco Bank like asking for copies of Mr R's bank statements or requesting evidence of his income by way of payslips or other documents.

In order to see what Tesco Bank would've found if it had carried out better checks we recently asked Mr R for copies of his bank statements. But due to the passage of time, Mr R's explained they are no longer available. We also asked Mr R to provide documents from a debt management service he used in 2019 but it wasn't available either. Mr R did give us some further information about his income and circumstances both at the time Tesco Bank was lending and the years that followed. I'd like to thank Mr R for giving us more information about his circumstances. I can see Mr R has been through a particularly difficult time and that his circumstances have been impacted by his health. I'd like to assure Mr R I've read and considered everything he's said.

In response to the investigator Mr R explained that he was working in 2018 but wasn't in a permanent position. Whilst Mr R has confirmed he was earning at the time, he's also explained that due to mental health problems he was borrowing and spending at a rate that wasn't sustainable. And I think it's fair to note that whilst Mr R has confirmed he was working, he hasn't told us that his income more than doubled between June 2017 (when he applied) and August 2018 (when Tesco Bank approved the final credit limit increase). But that's the basis on which Tesco Bank approved the credit limit increase.

I've considered whether the information available to Tesco Bank, including the information on Mr R's credit file, should've been sufficient to show Mr R was unlikely to be able to afford

further borrowing in August 2018. I note that after Mr R opened the credit card in June 2017 he went on to open a reasonable amount of new accounts in the months that followed. As I've said above, when Mr R opened his credit card he owed around £6,600. But when Tesco Bank increased his credit limit to £900 in June 2018 he owed at least £34,000. In my view, an increase of that nature in a period of around 18 months should've given some indication that Mr R was borrowing at an unsustainable rate and that further credit would be very unlikely to be sustainable. In my view, Tesco Bank's decision to increase Mr R's credit limit to £900 was unaffordable so I agree with the investigator's decision to uphold Mr R's complaint from that point.

My final decision

My decision is that I uphold Mr R's complaint and direct Tesco Personal Finance PLC trading as Tesco Bank to settle as follows:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £600.
- If the rework results in a credit balance, this should be refunded to Mr R along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Tesco Bank should also remove all adverse information recorded after 4 August 2018 regarding this account from Mr R's credit file.
- Or, if after the rework the outstanding balance still exceeds £600, Tesco Bank should arrange an affordable repayment plan with Mr R for the remaining amount. Once Mr R has cleared the outstanding balance, any adverse information recorded after 4 August 2018 in relation to the account should be removed from their credit file.

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

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 4 July 2023.

Marco Manente
Ombudsman