

## **The complaint**

Miss T complains that Tesco Personal Finance PLC trading as Tesco Bank was irresponsible in its lending to her.

## **What happened**

Miss T was provided with a Tesco Bank credit card in September 2018 with a credit limit of £2,800. The credit limit hasn't been increased. Miss T says that at the time the credit was provided she was on statutory maternity pay and was struggling financially with missed payments and other debt. She said she couldn't afford the payments.

Tesco Banks said that proportionate checks were carried out before the lending was provided. It said Miss T declared a monthly income of £1,500 and said she was living with parents and paying rent of £120 although it included a higher amount in its assessment. It carried out a credit check which showed Miss T had defaults but these were historic, and she had been managing her accounts well more recently. It said based on Miss T's credit commitments shown in her credit report and allowing for her housing and other living costs the credit card with a £2,800 credit limit was affordable.

Our investigator upheld this complaint. He said that given the size of the credit limit compared to Miss T's declared income and noting that she had six historic defaults recorded on her credit file, Tesco Bank should have carried out further checks to ensure the lending was affordable. He looked at Miss T's bank statements for the months leading up to her credit card application and these showed Miss T's income was lower than she had declared and her costs higher. Based on this he didn't think the credit card account with the £2,800 credit limit should have been provided.

Tesco Bank noted our investigator's comment but said it wasn't proportionate to request Miss T's bank statements and that its checks were reasonable. As these showed the lending to be affordable it didn't agree with our investigator's view.

## **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 assess the ability of the consumer to be able to make the repayments in an affordable way over the loan term. There aren't specific checks that need to be carried out, but the regulations say these need to be reasonable and proportionate to the type and amount of credit being provided, the length of the credit being provided, the frequency of its use, the repayments and the total cost of the credit.

Miss T applied for a credit card account and before this was provided, Tesco Bank carried

gathered information from Miss T about her circumstances and carried out a credit check. The data gathered recorded Miss T as being single, employed full time and living with parents. The credit check didn't show any county court judgements or individual voluntary arrangements being in place and noted her accounts as being up to date. However, six defaults were recorded in Miss T's credit file, with the most recent being for £21,500 and while these were historic given Miss T had experienced financial difficulties in the past and noting how many defaults were recorded, I think it would have been reasonable to carry out additional checks to ensure this lending was affordable for her.

Tesco Bank gathered information about Miss T's income, and it was recorded that she received a net monthly income of £1,500. In this case, I think it would have been reasonable to verify this amount. Tesco Bank wasn't required to request copies of Miss T's bank statements but as these have been provided, I have relied on the information they contain to establish what I think Tesco Bank would have most likely identified had it verified Miss T's income. Having looked through Miss T's bank statements for the months leading up to her credit card application she was receiving significantly less than was included in her application. Miss T has explained that she was on maternity pay which would account for a higher annual income being declared but further checks showing that her monthly income at the time was considerably lower at £597. Miss T's bank statements show she was also receiving benefit payments of £336 giving her a total monthly income of around £933.

Miss T had said she was paying £120 a month in rent. Her credit file showed she had £1,045 outstanding on a loan and £2,733 in revolving credit. Considering the amounts due on her existing credit commitments (taking the information from Tesco Bank's credit results and Miss T's bank statements) and including the fees she was paying on her bank account, including overdraft fees, Miss T was making monthly payments of around £350 for her credit commitments. Miss T was also paying £50 a month for a personal loan with a family member. Miss T's bank statements do not show that she was paying for utilities and I note she had stated she was living with parents. She was paying for media /communications and for transport and other general living expenses. I do not think the £450 Tesco Bank estimated for Miss T's general living costs was unreasonable. Taking this all into account would not leave Miss T with sufficient disposable income to cover the cost of the estimated repayments on a credit card with a £2,800 credit limit. Because of this I do not find that Tesco Bank should have provided this account to Miss T.

### **Putting things right**

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

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied.
- If the rework results in a credit balance, this should be refunded to Miss T 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 regarding this account from Miss T's credit file.
- Or, if after the rework there is still an outstanding balance, Tesco Bank should arrange an affordable repayment plan with Miss T for the remaining amount. Once Miss T has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

\*HM Revenue & Customs requires Tesco Bank to deduct tax from any award of interest. It

must give Miss T a certificate showing how much tax has been taken off if she 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**

My final decision is that I require Tesco Personal Finance PLC trading as Tesco Bank to take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss T to accept or reject my decision before 10 July 2023.

Jane Archer  
**Ombudsman**