

The complaint

Mr R complains that Tesco Personal Finance PLC trading as Tesco Bank irresponsibly lent to him.

Mr R is represented by his wife in bringing this complaint. But for ease of reading, I'll refer to any submission and comments he has made as being made by Mr R himself.

What happened

Mr R says that he had been declared bankrupt in 2008. He says that since then he has been applying for loans and credit cards to help with living costs. Mr R was accepted for a Tesco credit card in May 2017 with a £1,400 credit limit which included a 28 month promotional 0% interest rate for balance transfers. The credit limit was increased to £2,400 in February 2018. Mr R made a complaint to Tesco and he said they irresponsibly lent to him.

Tesco did not uphold Mr R's complaint. They said that they provided him with a credit limit which was affordable for him based on the information to them at the application stage. They said that the bankruptcy would stay on his credit file for at least six years but it wouldn't exclude him from securing credit indefinitely. Mr R brought his complaint to our service.

Our investigator partially upheld Mr R's complaint. She said Mr R was discharged from his bankruptcy in 2009, so it wouldn't have impacted his credit record by the time he applied for the Tesco credit card in 2017. She said based on the checks carried out at application stage, she saw no reason why Tesco should've declined the application and Mr R also benefitted from the promotional interest rate. But she said Tesco shouldn't have increased his credit limit to £2,400 as she wasn't satisfied that borrower focused checks were completed.

Our investigator looked at Mr R's credit file and bank statements to check his income and she found that his income fluctuated due to self-employment and averaged £785 monthly, including working tax credits, in the period leading up to the credit limit increase. So she said that Tesco should not have increased the credit limit. As Tesco did not respond by the deadline given in our investigators view of the complaint, Mr R's complaint was passed to me to decide what is fair and reasonable here.

As my findings differed in some respects from our investigator's, I issued a provisional decision to give both parties the opportunity to consider things further. This is set out below:

"I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Before agreeing to approve or increase the credit available to Mr R, Tesco needed to make proportionate checks to determine whether the credit was affordable and sustainable for him. There's no prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include - but are not limited to: the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances. I've listed below what checks Tesco have done and whether I'm persuaded these checks were proportionate.

May 2017 - Initial acceptance of the Tesco credit card:

I've looked at what checks Tesco said they did when initially approving Mr R's application for the credit card. I'll address the credit limit increase later on. Tesco said they looked at information provided by credit reference agencies and information that Mr R had provided before approving his application.

I'm persuaded that the account opening checks were proportionate. I say this as the information showed that Mr R had declared a total gross income of £25,000 and was self-employed. And although I understand that his income may fluctuate with him being self-employed, I would expect the declared income to be a true reflection of what Mr R would realistically expect to earn, especially as his application showed he had been self-employed for seven years, so he should have a good idea of what he would earn.

It does not appear that Mr R had any adverse credit at the time he was approved for the Tesco credit card. And Tesco would not be aware that he had been bankrupt previously as he was discharged several years earlier. The £1,400 credit limit was less than 6% of his declared annual net income and his external borrowings were showing as £1,957 (just over 8% of his declared net annual income). He also had a promotional interest rate of 0% available for balance transfers for 28 months. So this could save him interest he was paying with a third party credit card provider, and free up some disposable income for him. So I'm satisfied that the checks Tesco carried out here, prior to approving the initial £1,000 credit limit were proportionate and that Tesco made a fair lending decision to approve Mr R's initial application.

February 2018 credit limit increase - £1,400 to £2,400

I've looked at the information that Tesco had available to them when they increased Mr R's credit limit. The new credit limit was nearly a 60% increase based on the initial credit limit they approved just nine months earlier. So I've looked at the data Tesco had around the time to get a broader sense of how Mr R was managing his finances prior to his credit limit being increased.

I can see that Mr R had generally managed his Tesco credit card well. Although he often only paid the minimum payment, he had taken advantage of the promotional interest rate, so he was benefitting from this promotion. Mr R did not utilise the majority of his credit card limit with Tesco. In addition, there appeared to be no adverse credit information on his credit file at this point, so on the surface, it would appear that a credit limit increase may be affordable and sustainable for him.

But that's not all the data showed. Although Mr R had external credit card balances of £1,957 prior to the Tesco credit card being approved, in only nine months between the card being approved and the credit limit increase, his unsecured borrowings had increased to £5,208. This could indicate that Mr R was a lot more reliant on credit than he was just nine months earlier. This represents an increase of his credit usage by over 266% in a short period of time. This shows the credit Mr R was using, but he also had credit which wasn't being used which was available to him. Given the increase of borrowings in such a short period of time, I'm persuaded that it would have been proportionate for Tesco to carry out further checks to ensure any further credit increases were affordable and sustainable for Mr R.

As Tesco were using an income figure of £1,688 a month for Mr R, the £5,208 debt prior to any credit limit increase would represent over a quarter of his income, a further £1,000 credit would increase this proportion of debt to income ratio and he had available credit limits on

top of this which would increase this figure further, if used the available credit. So again, I'm satisfied that it would have been proportionate for Tesco to carry out further checks to ensure any further credit increases were affordable and sustainable for Mr R.

So for the reasons I've mentioned above, I'm persuaded that as part of a proportionate check, Tesco should have requested information from Mr R to discuss his finances, for example, one of the things they could have requested were his recent bank statements to check his income and expenditure, and/or look at his credit file to take an in depth look at the increase of the credit he was using to ensure any further credit limit increases were affordable and sustainable for him.

Mr R has provided both his credit file and bank statements which cover the period prior to the credit limit increase. Mr R's credit file shows that since he was accepted for the Tesco credit card, he had two credit limit increases to his third party credit cards. In addition to this, his credit file shows that he had only just been accepted in early January 2018 for a new third party credit card, which appeared to have a £3,000 credit limit. So there were clear signs that Mr R was hungry for credit, which could be masking a financial difficulty. I've taken into account that the new credit card may not have been available to Tesco if they had taken a closer look at his credit file at the time, considering credit files typically take 4-6 weeks to update, but given that Tesco's data showed his debt usage increased from £1,957 to £5,208 between his Tesco account being opened and the credit limit increase, it's possible that this account would have showed as recently being opened, but regardless of this, Tesco would have been able to see the two credit limit increases elsewhere on closer inspection.

Mr R's bank statements do show heavy signs of a lack of affordability for a credit limit increase here. I say this as the bank statement shows a number of benefits being paid into his joint account. A lot of the income is clear that it is not his. In addition, while the account is always in a positive balance, there are payments into the account from a family member, which would be obvious to someone looking at his statements as it shows Mr R's surname but a different initial. There are references on the statements which also show "borrow".

So if Tesco, as part of a proportionate check looked closer into Mr R's increased reliance on credit between the account acceptance and the credit limit increase dates, I'm persuaded they would have seen the different credits going into his account and challenged him as to why a family member kept paying into his account. I'm persuaded that at this stage it would have come to light that Mr R wasn't earning as much as he originally said he was, and that he was needing to borrow from family to meet his outgoings. And therefore I'm not persuaded Tesco would have increased Mr R's credit limit with this knowledge. So I'm not persuaded that Tesco made proportionate checks based on the information available to them when deciding to increase his credit limit by an extra £1,000 to £2,400. So I'm not persuaded that they made a fair lending decision here to increase the credit limit. So I intend to ask Tesco to put things right."

I invited both parties to let me have any further submissions before I reached a final decision. Mr R accepted the provisional decision. Tesco did not respond to the provisional 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.

As neither party have provided me with any further information to consider, then my decision and reasoning remains the same as in my provisional decision.

Putting things right

In my provisional decision I said I intend to uphold this complaint in part. I said I intend to ask Tesco Personal Finance PLC trading as Tesco Bank to do the following:

Tesco should arrange to transfer any debt back to themselves if it has been passed to a debt recovery agent.

Tesco should also rework the account, refunding all interest and charges that have been applied to any balances above £1,400. 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 should also remove all adverse information recorded from February 2018 regarding this account from Mr R's credit file.

Or, if after the rework the outstanding balance still exceeds £1,400, Tesco 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 from February 2018 in relation to the account should be removed from his credit file.

I'm still satisfied this is a fair outcome for the reasons given previously.

**If Tesco considers that they are required by HM Revenue & Customs to deduct income tax from that interest, they should tell Mr R how much they've taken off. They should also give Mr R a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate*

My final decision

I uphold this complaint in part. Tesco Personal Finance PLC trading as Tesco Bank should settle the complaint in line with the instructions in the "*putting things right*" section above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 29 June 2023.

Gregory Sloanes
Ombudsman