

The complaint

Mr P complains that Tesco Personal Finance PLC lent irresponsibly when increasing the credit limit on his credit card.

What happened

The background to this complaint and my initial conclusions were set out in my provisional decision. I said:

Mr P applied for a credit card with Tesco in March 2019. In the application, Mr P advised he was employed with an income of £27,500 a year and a tenant. Tesco used a rental figure of £474, associated living costs and looked at Mr P's credit file to get a picture of what he owed. Tesco says that if found Mr P had a reasonable level of disposable income available and approved a credit card with a limit of £250.

In July 2019 Tesco increased the credit limit to £600. In July 2020 Tesco increased the credit limit to £900, in October 2020 it was increased to £1,200 and in January 2021 the credit limit was increased to £1,500. Tesco says that each time the credit limit was increased it carried out checks on Mr P's credit file and proceeded in line with its lending criteria.

Last year, Mr P complained that Tesco had lent irresponsibly when it approved the credit limit increases on his credit card. Tesco issued a final response but didn't agree it had lent irresponsibly.

An investigator at this service looked at Mr P's complaint and upheld it. They thought the checks completed by Tesco had failed to go far enough and that if it had carried out a more comprehensive review it would've likely decided not to proceed with further credit limit increases. Tesco asked to appeal and said Mr P's credit card had been maintained without issue throughout its term and that there were no obvious signs he was struggling financially when it increased the credit limit. As Tesco asked to appeal, Mr P's complaint has been passed to me to make a decision.

What I've provisionally 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.

Our investigator reviewed Mr P's credit file and said they thought the level of short term borrowing from the time Tesco increased the credit limit in July 2019 should've caused it to carry out better checks. I've looked at the credit file information Tesco had available at the point it increased Mr P's credit limit but there's no obvious sign Mr P was utilising short term loans at the time it increased his credit limit in July 2019. Mr P has also forwarded a copy of his credit report that shows his borrowing around this time.

I've reviewed the credit file but didn't see evidence of short term borrowing in 2019. I can see there were various short term loans from a business I'll call L between 2016 and 2018 but not in 2019. I can see a new loan in April 2019, but I'm satisfied that was factored into Tesco's lending decision in July 2019 when it increased Mr P's credit limit. I also think it's fair to note that the credit limit increase was for £350 which was reasonable modest in nature. Tesco's confirmed Mr P's credit card had been well managed, in line with the account terms. In my view, Tesco did complete reasonable and proportionate checks when deciding to increase the credit limit to £600. I'm sorry to disappoint Mr P but I haven't been persuaded it was irresponsible for Tesco to increase his credit limit to £600.

Tesco next increased Mr P's credit limit in July 2020 when it went up to £900. In my view, there were signs at this point that Mr P was unlikely to be able to support further borrowing. Mr P's credit file shows he took out new borrowing with at least four separate lenders in the months after the credit limit increase to £600 was approved. In my view, that should've led Tesco to consider whether Mr P was relying on credit to make ends meet and whether further borrowing was sustainable.

There were a range of options available to Tesco to verify whether Mr P was able to support further borrowing. I've looked at Mr P's bank statements for the period immediately before the credit limit increase to £900 in July 2020. The bank statements show Mr P's outgoings to support his existing credit took a substantial part of his income. When added to his rent and other associated living expenses, Mr P's income doesn't appear to have been sufficient to meet his regular outgoings. In my view, if Tesco had completed more comprehensive checks like reviewing Mr P's bank statements, it wouldn't have proceeded to increase his credit limit to £900 or further. In my view, Tesco lent irresponsibly from this point.

As I think Tesco lent irresponsibly when it increased Mr P's credit limit to £900 it follows I also find the later increase to £1,500 was also unaffordable. Based on the information I've seen so far, I intend to uphold Mr P's complaint in line with the above.

I invited both parties to respond with any additional comments or information they wanted me to consider before I made my final decision. Mr P responded and said he had nothing further to add. We didn't hear back from Tesco.

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 has provided new information for me to consider I see no reason to change the conclusions I reached in my provisional decision. I still think Mr P's complaint should be upheld for the same reasons.

My final decision

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

- Rework the account removing all interest, fees, charges and insurance (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 P 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 July 2020 regarding the account from Mr P's credit file
- Or, if after the rework the outstanding balance still exceeds £600, Tesco should arrange an affordable repayment plan with Mr P for the remaining amount. Once Mr P has cleared the outstanding balance, any adverse information recorded after July 2020 in relation to the account should be removed from their credit file

*HM Revenue & Customs requires Tesco to deduct tax from any award of interest. It must give Mr P 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 P to accept or reject my decision before 27 July 2023.

Marco Manente
Ombudsman