

The complaint

Mr C complains Tesco Personal Finance PLC trading as Tesco Bank irresponsibly lent to him when providing him with a credit card.

What happened

My understanding is Mr C applied for a Tesco credit card in April 2022, and he was given a credit limit of £3,850. He says he had six other credit cards and was utilising over 90% of the limits on those at the point of his application. Mr C also says he was gambling quite heavily, and Tesco didn't take this into account either.

Tesco said they assessed his application and took information from the Credit Reference Agencies (CRA's). They said when Mr C applied for the card he told them he earned £2,800, and had monthly outgoings of £2,051 including mortgage payments. So, they calculated he had a total disposable income of £749 – along with no bankruptcies, County Court Judgment's or arrears. So, they didn't uphold Mr C's complaint.

Unhappy with this, Mr C asked us to look into things. One of our Investigators did so, but didn't think Tesco had acted fairly in lending to Mr C. So, they recommended the complaint be upheld.

Mr C accepted this, Tesco ultimately didn't, saying they'd made a fair decision. So, the complaint's been passed to me to decide.

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.

We've explained on our website how we handle complaints about unaffordable and irresponsible lending, and I've used this approach to help me decide Mr C's case. Tesco were required to make sure they didn't lend irresponsibly – which meant they had to gather details of Mr C's circumstances to ensure he could sustainably repay this credit facility if required.

This is called carrying out proportionate checks. Our website sets out what proportionate checks are – so I've looked at what information Tesco gathered to see if it carried out proportionate checks.

We generally say the higher the amount of borrowing, or the lower a borrower's salary, the more a lender needs to do to satisfy themselves they've gathered proportionate information. Equally, if the amount of borrowing is low, and the salary is high, then the less we'd say lenders need to do in order to show it didn't lend irresponsibly.

Mr C's lending is a credit card, which is a type of revolving credit. Tesco had to ensure Mr C could afford to repay the whole balance within a reasonable period of time.

Based on information they'd gathered about his circumstances, Mr C earned £45,000 a year gross. At the time of the lending he already had a loan balance of around £7,000, and other revolving credit for around £20,000. So, by granting this credit card, Tesco increased Mr C's overall unsecured debt to around £30,000 – which is two thirds of his gross yearly income.

In the circumstances, I think Tesco carried out proportionate checks, but then didn't make a fair lending decision. I don't think Mr C could have sustainably afforded to repay the full credit limit he was given considering his existing commitments combined with his salary. Because of this, I don't think Tesco have acted fairly.

Putting things right

Tesco should:

- Rework Mr C's credit card to remove any interest and charges
- If this leaves an outstanding balance, then Tesco should work with Mr C to agree an appropriate repayment plan. Once the balance has been repaid, then any adverse information should be removed.
- If this means no balance is now due, then anything extra should be treated as overpayments and refunded to Mr C plus 8% simple interest* on the overpayments from the date they were made to the date of settlement. If no outstanding balance remains after the adjustments have been made, then Tesco should remove any adverse information recorded on Mr C's credit file

*HM Revenue and Customs requires Tesco to deduct tax from the interest payment referred to above. Tesco must give Mr C a certificate showing how much tax they've deducted if he asks them for one.

My final decision

For the reasons I've explained above I uphold this complaint and require Tesco Personal Finance PLC trading as Tesco Bank to take the actions set out in the 'Putting things right' section above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C to accept or reject my decision before 7 December 2023.

Jon Pearce
Ombudsman