

The complaint

Miss O complains that Tesco Personal Finance PLC, trading as Tesco Bank, irresponsibly increased her credit limit on a credit card she held with it.

What happened

Tesco provided Miss O with a credit card in September 2019 for £1,300. In April 2020, the credit limit was increased to £4,000. It was increased again in August 2021 to £6,000.

Miss O thinks Tesco was irresponsible when it provided her with credit. In summary, she says Tesco didn't complete checks in the way it should have. Miss O says she had a history of taking out payday loans, bank loans and credit cards. She says she regularly only made the minimum payments and had almost maxed out the credit card before the limit was increased. Miss O says Tesco also provided her with a loan before the most recent increase on the card. And she points out that Tesco allowed her to gamble using the card.

Tesco reviewed Miss O's complaint and, in summary, didn't think it had provided her with credit irresponsibly. It pointed out that it had asked Miss O for information about her circumstances. And whilst it didn't obtain any evidence of the income stated, there was no obligation for it to do so. It also said Miss O's account was maintained well and there were no gambling transactions applied to the account. It did notice a number of foreign transactions and money transfers, but it was ultimately Miss O's responsibility to decide how she transacted on the account.

Unhappy with Tesco's response, Miss O brought her complaint to this service. One of our investigators reviewed matters and didn't recommend that Miss O's complaint be upheld. In summary, she thought the checks Tesco carried out were reasonable and proportionate in the circumstances.

Having reviewed the account statements, our investigator didn't think the activity should have led to Tesco declining Miss O's requests for credit limit increases. She noted that because the payments were to merchants overseas, it would have been difficult for Tesco to automatically identify and prevent these transactions from debiting the card. And, overall, she didn't think it could have done anything to prevent these transactions.

Miss O reiterated why she thought Tesco had provided credit to her irresponsibly, but our investigator maintained her position. As an agreement couldn't be reached, the case came to me to decide. I issued a provisional decision where I said I was minded to reach different conclusions to our investigator. I then said the following:

"In more recent correspondence to this service, Miss O confirmed that she is only complaining about the credit limit increases provided on the card. Therefore, my decision will focus only on whether Tesco was irresponsible when providing Miss O with two credit limit increases to £4,000 and £6,000."

The rules and regulations in place at the time Tesco provided Miss O with the credit limit increases, required it to carry out a reasonable and proportionate assessment of whether she could afford to repay what she owed in a sustainable manner. This is sometimes referred to as an 'affordability assessment' or 'affordability check'.

The checks had to be 'borrower' focused. This means Tesco had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Miss O. In other words, it wasn't enough for Tesco to consider the likelihood of it getting the funds back – it had to consider the impact of any repayments on Miss O.

Checks also had to be 'proportionate' to the specific circumstances of the lending. In general, what constitutes a proportionate affordability check will be dependent on a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they were seeking. I've kept all of this in mind when thinking about whether Tesco did what it needed to before lending to Miss O.

Miss O had already been provided with a facility of £1,300. Around seven months later in April 2020, Tesco approved a credit limit increase to £4,000. The information Tesco provided suggests it asked Miss O for her income, which when converted to a net monthly income was recorded as £1,483 per month. It checked Miss O's credit file and noted she had a default recorded 67 months ago. It also noted she had total balances of around £10,300 made up of loans and revolving credit.

Whilst I appreciate that Tesco's checks didn't highlight any obvious signs of difficulties, Tesco was now providing Miss O with more than triple the original credit limit it gave her the previous year – therefore significantly more than what she had previously been given. And just because Miss O was managing to avoid difficulties on the credit Tesco had originally provided, this in itself doesn't mean that she could pay a significant amount of additional funds.

I've also considered that whilst Tesco appears to have asked Miss O for her income at the point of the increase, it doesn't appear to have verified this information. Whilst I acknowledge Tesco says it has no obligation to do so, considering how much it was increasing Miss O's access to credit, I think it ought to have gained a better picture of Miss O's overall circumstances before agreeing to lend her more money. I say this particularly as it had previously estimated that Miss O would have £79 disposable income available at the point it was proposing to lend her £1,300 in the first instance. So, given that it was now intending to lend her more than triple this, I think it ought to have gathered more information.

I've reviewed Miss O's current account statements to build a picture of her circumstances at the time, and what Tesco likely would have seen had it carried out further checks. Having reviewed these, Miss O's income is much less than what was initially declared. In the three months leading up to the credit limit increase, Miss O's average income was around £767 – made up of income of £684 and what appears to be a regular child benefit payment of around £83.

Miss O also has regular payments coming into the account from another source. When this service asked Miss O for further information about these payments, she said these were money transfers being made from another credit card she held. Miss O also provided information showing the description of these payments on the statements were consistent with information about this third-party credit card.

Having thought very carefully about this, I think had Tesco completed further checks into Miss O's income, it would have seen that her income was much less than what was

declared. Miss O was also effectively creating further debts elsewhere to bring money into her current account. And it appears that Miss O was reliant on this to ensure she could keep up with her commitments.

Additionally, I can see that Miss O was using her overdraft in the months regularly leading up to the increase. I have considered there were some periods of time where Miss O's account was in credit for a number of days, usually when she'd been paid. But the account then often becomes overdrawn again some days later.

There are also other occasions where the account appears to be in credit for a longer period of time – for example, around January 2020. But this is also where Miss O transferred more money that month through a money transfer from another credit card. So, whilst she may not have been as reliant on her overdraft in that month, that was only because she was instead reliant on her other lines of available credit and was effectively creating a debt elsewhere in order to bring money into the account.

The statements also show that Miss O was making payments to a number of creditors in the months leading up to the credit limit increase, including 'buy-now-pay-later' payments. And, notably in January, she made a large payment to a high-cost lender the day after she had made a large transfer into her account via money transfer from another credit card.

I have also considered that Miss O appeared to have another account she was making transfers to and from. Having reviewed these however, I can't see these evidence any additional income stream. Instead, I can see the account was often maintained with a relatively low balance, with the exception of instances where, as I understand it, Miss O appears to have been sent money by other people. Indeed, Miss O told this service she often owed money to others.

There appears to be another account Miss O held, however she says it's an account she can't access or retrieve her details for. She says it was an account that was rarely used. Having reviewed her available statements, there appears to be only a handful of payments to and from that account over the relevant period. However, I'm not persuaded I need to make a finding on this point. I say this because I'm already satisfied that Miss O's other statements build enough of a picture to show that she was ultimately reliant on the credit she was taking out. So, I'm not persuaded that this changes anything.

Therefore, I think had Tesco carried out further checks, it would have likely concluded that Miss O was reliant on other lines of credit, as well as money from others, to keep up with her commitments. With this in mind, I think it was irresponsible to provide her with more credit and increase her credit limit to £4,000.

Miss O's limit was increased again to £6,000 in August 2021. However, Tesco has said this limit only remained for two months before it was reduced again to £3,000, and Miss O didn't utilise the further available limit. Therefore, I've not gone on to consider whether this limit was affordable given that Miss O doesn't appear to have used it and therefore hasn't been caused detriment as a result of the increase.

I've also considered that Miss O told this service that at the time she held the card, she was gambling in a way that was causing her stress and impacting her finances negatively. I'd like to thank Miss O for sharing the information she has with us. It's certainly unfortunate that Tesco didn't acknowledge the way Miss O was using her card during the period in question. That being said, I've already decided that Tesco shouldn't have provided Miss O with the limit increase to £4,000. And as outlined, Miss O didn't utilise the available limit of £6,000 when that increase was provided. Therefore, I'm not persuaded this information changes the outcome I've reached. I'll now move onto considering how Tesco should put things right."

I then explained what I thought Tesco needed to do to put things right.

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.

Miss O accepted the provisional decision. Tesco didn't respond to the provisional decision, or this service's subsequent email sent reminding it of the deadline by which it needed to respond. So, I've assumed there isn't anything else Tesco wants me to take into consideration.

Given that both parties haven't provided any new information to this service, I see no reason to depart from the findings that I reached in my provisional decision. It follows that I uphold this complaint for the reasons outlined above.

Fair compensation – what Tesco should do to put things right

In most cases where credit has been provided where it shouldn't have been, it would be fair and reasonable for the lender to refund any interest and charges paid by the borrower. And, the borrower would usually be expected to repay any remaining amount of the money they had been lent. So, I'd expect Miss O to pay back the money she was lent, but not the interest.

With this in mind, Tesco should put things right for Miss O by doing the following:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £1,300.
- If the rework results in a credit balance on the account, this should be refunded to Miss O along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. And, Tesco should remove any adverse information reported to Miss O's credit file about this account after April 2020.
- Or, if after the rework an outstanding balance remains, Tesco should arrange an affordable repayment plan with Miss O for the remaining amount. Once Miss O has cleared the outstanding balance, any adverse information recorded after April 2020 in relation to the account should be removed from her credit file.

*HM Revenue & Customs requires Tesco to take off tax from this interest. Tesco must give Miss O a certificate showing how much tax it has taken off if she asks for one.

My final decision

My final decision is I uphold this complaint and direct Tesco Personal Finance PLC trading as Tesco Bank to put matters right in the way I've already outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss O to accept or reject my decision before 2 November 2023.

Hana Yousef

Ombudsman