

## **Complaint**

Miss C has complained that Tesco Personal Finance PLC (trading as “Tesco” Bank) irresponsibly provided her with a credit card.

She’s said the credit card was unaffordable and her financial situation became worse when she started being charged interest after she unintentionally missed payment during the promotional period.

## **Background**

Miss C was provided with a credit card, which had an initial credit limit of £12,000.00 in December 2017. The credit limit on Miss C’s card was never increased but it was decreased to £10,975.00 in October 2019 and then £10,325.00 in January 2020.

One of our investigators reviewed what Miss C and Tesco had told us. And he thought that Tesco ought to have realised that it shouldn’t have provided this credit card to Miss C. So he upheld Miss C’s complaint.

Tesco disagreed with the investigator’s view and so the case was passed to an ombudsman for review.

## **My findings**

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 how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Miss C’s complaint.

Having carefully considered everything provided, I’m upholding Miss C’s complaint. I’ll explain why in a bit more detail.

Tesco needed to make sure that it didn’t lend irresponsibly. In practice, what this means is Tesco needed to carry out proportionate checks to be able to understand whether Miss C could afford to repay before providing Miss C with her credit card.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

The credit card Miss C was provided with had a credit limit of £12,000.00. And as this was a credit card Tesco was required to understand whether Miss C could repay around £12,000.00 within a reasonable period of time.

From the information provided, I understand that Miss C was asked to provide a declaration of her income and she stated it was around £2,100.00 a month. She also declared that she was paying rent of £700. I can also see a credit check was carried out which showed that Miss C had 8 active accounts. The total amount Miss C owed was approaching £9,000.00 with around £8,500.00 being owed on a loan and around £350 owing on existing revolving credit accounts.

Tesco says that when Miss C's credit commitments together with a reasonable estimate of living costs were deducted from her income she had a sufficient amount left over to repay what she would owe within a reasonable period of time, if she had used the entire £12,000.00 available to her.

I've thought about what Tesco has said.

I want to start by saying that a lender is entitled to rely on the information it obtains as part of affordability assessment as long as it is reasonable to do so. But, in this instance, there were a number of inconsistencies in the information that Tesco used to determine that this credit card was affordable for Miss C. These inconsistencies are so difficult to explain that I don't think it was reasonable for Tesco to have relied on this information.

For example, Tesco appears to have relied on Miss C having monthly loan repayments of £36 despite the credit search carried out also showing the loan as having an outstanding balance of nearly £8,500.00. Equally Tesco also appears to have used a rent amount of £632 in its calculation of Miss C's expenditure, despite Miss C having declared monthly rent of £700. Furthermore, despite this Miss C was also recorded as living at home with parents too.

Given these discrepancies and the lack of anything to suggest that these were queried before the application was approved, I've not been provided with enough to satisfy me that the checks Tesco carried out before providing this credit card were reasonable and proportionate.

As I'm satisfied that reasonable and proportionate checks weren't carried out before Miss C's credit limit was provided, I can't say for sure what they would've shown. Nonetheless, I still need to decide whether it is more likely than not that proportionate checks would have told Tesco that Miss C would have been unable to sustainably repay £12,000.00 within a reasonable period of time.

I think that Tesco needed to get a better understanding of Miss C's income and expenditure before providing her with this credit card. Having looked at Miss C's income, payments to existing credit commitments and her regular living expenses, it's clear that she was on maternity leave and receiving less than usual salary at this time. Furthermore, Miss C was also paying substantially more towards her credit commitments than Tesco thought she was. The monthly repayment to her loan alone was over £300.

What I've seen, from around the time, suggests most of Miss C's income was taken up by her existing living costs and repayments to her existing commitments. I think that she was clearly in a position where every little helped and counted. So she didn't have the funds necessary to make the payments Tesco believe were necessary to repay this credit card within a reasonable period of time.

I'd also point out that Tesco's assessment of a sustainable repayment doesn't even include any interest that would be due should Miss C have breached the terms and conditions of the interest free period, which she went on to do, or once her promotional offer expired when she would still have had an outstanding balance based on the payment amount Tesco used in its affordability assessment.

Bearing all of this in mind, I'm satisfied that reasonable and proportionate checks would more likely than not have demonstrated that Miss C would not have been able to repay £12,000.00 within a reasonable period of time and certainly without borrowing further. In these circumstances, I find that reasonable and proportionate checks would more likely than not have alerted Tesco to the fact that Miss C couldn't afford a credit card with a limit of £12,000.00 in December 2017.

I'm therefore satisfied that Tesco didn't act fairly and reasonably when it provided Miss C with her credit card in December 2017.

Miss C ended up paying and is still being expected to pay interest on a credit card which she shouldn't have been provided with in the first place. So I'm satisfied that she lost out because of what Tesco did wrong and that Tesco should now put things right.

### **Fair compensation – what Tesco needs to do to put things right for Miss C**

Having carefully considered everything, I think that it would be fair and reasonable, in all the circumstances of Miss C's complaint, for Tesco to put things right in the following way:

- Rework Miss C's credit card account to ensure that all interest, fees and charges are removed.
- If the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss C along with 8% simple interest† on the overpayments from the date they were made (if they were) until the date of settlement. If no outstanding balance remains after all adjustments have been made, then Tesco should remove any adverse information from Miss C's credit file.

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

I understand that Tesco sold an outstanding balance on Miss C's account to a third-party debt purchaser. So it will need to either buy the account back from the third-party and make the necessary adjustments, pay an amount to the third party (equivalent to that needs to be made on Miss C's account) in order for it to make the necessary adjustments, or pay Miss C an amount (equivalent to the interest, fees and charges which need to be refunded) to ensure that it fully complies with this direction.

### **My final decision**

For the reasons I've explained, I'm upholding Miss C's complaint. Tesco Personal Finance PLC should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss C to accept or reject my decision before 8 December 2023.

Jeshen Narayanan  
**Ombudsman**