

The complaint

Miss S complains that Tesco Personal Finance PLC (“Tesco”), trading as Tesco Bank, irresponsibly granted her a credit card she couldn’t afford to repay.

What happened

In January 2020 Miss S entered into an agreement with Tesco to have access to credit by way of a credit card account. She was given an opening credit limit of £250. There then followed a series of six credit limit increases: in April 2020 to £500, in June 2020 to £800, in August 2020 to £1,100, in October 2020 to £1,400, in December 2020 to £1,700 and finally in April 2021 to £2,000.

Miss S says Tesco didn’t complete adequate affordability checks when it granted her the account. She says she was already struggling financially at the time.

Tesco didn’t agree. It said that it carried out a reasonable and proportionate assessment to check Miss S’s financial circumstances before granting her the credit card account and each of the credit limit increases.

In my provisional decision, dated 10 October 2023, I explained why I was intending to uphold this complaint only in part. I set out an extract below:

“Account opening

Before granting the account, Tesco looked into Miss S’s financial situation. This included looking at the information about her personal circumstances and the information provided within her application. This included her monthly net income which was found to be around £900, based on her gross annual income of £12,500. Miss S also said she was a private tenant and gave details of her occupation. Tesco’s checks also showed Miss S’s existing loan balances and sums owed on other credit accounts. The checks found that Miss S was generally managing her other credit accounts well. Miss S had also had at least four credit defaults in her credit history, dating back to 2018, and a county court judgment that had been registered in around 2014. Tesco assessed Miss S’s monthly outgoings based on this information and established that she had enough disposable income to be able to make repayments on the card. I note that for the type of card Miss S had applied for, Tesco says it wasn’t unusual for a new customer to have recent issues arising in their credit history.

It’s possible that Tesco failed to make adequate checks before providing Miss S with credit. But even if that were the case – and I can’t say that it was - I don’t think better enquiries would have caused Tesco to think the credit was unaffordable. I say this taking into account the relatively modest opening credit limit of £250. Also, from what I can see two of the defaults were added to Miss S’s credit file around two years earlier, totalling around £900. So in the context of the wider credit checks Tesco had carried out, including establishing her income and existing credit commitments, I don’t think these defaults were reason alone not to grant the opening credit.

I think the same can also be said of the first credit limit increase, to £500, which was granted three months later. By this point Miss S had made four payments towards her card, with each payment being above the minimum. So I think on this basis the increase would still appear to be affordable based on the opening checks.

I therefore don't currently consider that Tesco acted unfairly in its decision to grant Miss S the account with a £250 credit limit and then go on to increase her credit limit to £500.

Further credit limit increases

The next credit limit increase took place around two months later, in June 2020, increasing Miss S's credit limit to £800. This was now more than three times the opening credit limit. I think at this stage, some six months after granting Miss S the account, it would have been proportionate for Tesco to find out how, if at all, Miss S's financial circumstances may have changed and to gain an indication of her overall financial situation and ability to meet the higher level of card repayments. One way to do this would be to obtain Miss S's bank statements. I've reviewed copies of these covering the period of six months leading up to this new increase.

Our investigator, having reviewed Miss S's bank statements, noted that she was consistently relying on her overdraft, regularly going several hundred pounds over her arranged overdraft limit of £100. Also, throughout the time she was being granted her credit limit increases, although there was some fluctuation in her level of monthly income, it didn't increase significantly.

I've also seen, from my own review of the bank statements, that Miss S was reliant on regular state benefits to top up her overall level of income. I've noted that these benefit payments increased during 2020 so that she was receiving a net income of somewhere between £1,200 to £1,500 each month. At the same time her use of her unarranged overdraft was continuing. I do not consider that making use of an overdraft facility whilst managing credit is automatically an indication that new credit is likely to be unaffordable. But I do think Tesco ought to have carried out further checks to get a fuller picture of Miss S's financial circumstances before granting her any further credit. I think there was a real risk by this point that Miss S's financial situation was steadily worsening. I also think that the level of disposable income Tesco had calculated when it decided to lend to her needed to be considered alongside a background of heavy and consistent overdraft use. I think this strongly suggests that Miss S was unlikely to be able to sustainably afford to take on further borrowing.

At its request, Tesco was recently provided with copies of the bank statements from our file that our investigator and I have relied on. It has not responded with any further comment on these within the time limit I gave them.

It follows that, as things currently stand, I don't think it was sustainable or affordable for Tesco to have increased Miss S's level of credit to £800 in June 2020 and then to go on to give her four further credit limit increases.

It follows that I currently intend to partially uphold this complaint."

Miss S and Tesco both confirmed they had received my provisional decision but had nothing further to add.

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.

Tesco will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don't consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

Given that neither party has provided me with any additional evidence or information, my decision is to partly uphold this complaint on the same basis as my provisional decision.

Putting things right – what Tesco needs to do

As I don't think Tesco ought to have increased Miss S's credit limit after April 2020, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement from then. But I also think Miss S should pay back the amount she'd borrowed on her card. Therefore, Tesco should:

- Rework Miss S's account to ensure that from June 2020 onwards, interest is only charged on balances up to the total credit limit of £500, (being the credit limit in place before that date) to reflect the fact that no further credit limit increases should have been provided. All late payment and over limit fees should also be removed; and
- If an outstanding balance remains on the account once these adjustments have been made, Tesco should contact Miss S to arrange an affordable repayment plan. Once Miss S has repaid the outstanding balance, it should remove any adverse information recorded on her credit file from June 2020 onwards.

OR

- 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 S, along with 8% simple interest per year on the overpayments from the date they were made (if they were) until the date of settlement. Tesco should also remove any adverse information from Miss S's credit file from June 2020 onwards.†

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

My final decision

For the reasons I've given above, I partially uphold this complaint and require Tesco Personal Finance PLC to 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 S to accept or reject my decision before 29 November 2023.

Michael Goldberg
Ombudsman