

## The complaint

Mr M complains Tesco Personal Finance PLC trading as Tesco Bank irresponsibly provided him with unaffordable credit limit increases on his credit card.

## What happened

Mr M was provided with the following credit limits on his credit card with Tesco Bank:

Lending decision	Date	Credit Limit
Original limit	July 2017	£250
1 <sup>st</sup> limit increase	November 2017	£600
2 <sup>nd</sup> limit increase	April 2020	£900
3 <sup>rd</sup> limit increase	July 2020	£1,200

Mr M complained to Tesco Bank in September 2022. He said had Tesco Bank conducted reasonable and proportionate checks before increasing his limits it would have identified at each event that the increases were unaffordable for him.

Tesco Bank didn't uphold the complaint. Its final response said it considered its checks were reasonable and proportionate in each instance; and that it went on to make fair lending decisions. Mr M didn't accept Tesco Bank's response and referred his complaint to our Service for review – asking us to consider the three limit increases on the credit card.

Our Investigator considered Mr M's complaint and ultimately upheld it in part. He considered Tesco Bank had reached a fair lending decision in 2017 when increasing the limit to £600. But the checks it completed in 2020 weren't reasonable and proportionate; and that it hadn't made fair lending decisions when increasing Mr M's limit in 2020, based on what he considered Tesco Bank would likely have identified had it completed proportionate checks.

Mr M accepted the outcome; Tesco Bank disagreed. In summary it said:

- The increases in credit limit were modest and were affordable based on the information it obtained, which it still considered to be proportionate and that it had gone on to make fair lending decisions in each event
- Although it had declined a credit limit increase in 2018 due to Mr M's card utilisation being at 99% of its available limit, it didn't agree that limit utilisation on its own would necessarily or automatically lead to it declining a limit increase
- Although Mr M was using his credit card in part to make gambling transactions, this was permitted prior to April 2020, and that Mr M could use the available funds as he chose

Tesco Bank asked for an Ombudsman's review, so the complaint has been passed to me to decide.

My decision here focuses on the three credit limit increases and not the original lending decision, as this is the complaint our Service has been asked to review.

## **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 set out our approach to complaints about irresponsible and unaffordable lending as well as the key rules, regulations and what we consider to be good industry practice on our website; both Mr M and Tesco Bank are aware of this approach.

Tesco Bank needed to take reasonable steps to ensure the lending it provided was responsibly lent to Mr M. The relevant rules, regulations, and guidance at the time of each of Tesco Bank's lending decisions required it to carry out reasonable and proportionate checks. These checks needed to assess Mr M's ability to afford the credit limit being approved and repay it sustainably, without causing him financial difficulties or harm.

There isn't a set list of checks a lender needs to carry out, but they should be proportionate, considering things like the type, amount, duration, and total cost of the credit, as well as the borrower's individual circumstances.

And it isn't sufficient for Tesco Bank to just complete proportionate checks – it must also consider the information it obtained from these checks to make fair lending decisions. This includes not lending to someone in financial hardship; and ensuring repayments can be made sustainably without the need to borrow further.

### The 1<sup>st</sup> limit increase in 2017

Mr M was provided with a credit limit increase in November 2017, around four months after the original lending decision. Tesco Bank has said it reviewed the management of Mr M's account and completed a credit check to identify his existing credit commitments and management of his credit accounts, before increasing the limit.

It's said based on the information it obtained from these checks, which it considers proportionate, that it went on to make a fair lending decision when increasing Mr M's limit to £600 in November 2017.

I've carefully considered Tesco Bank's argument; and I'm persuaded it did reach a fair lending decision based on proportionate checks in this instance.

I say this because it appears Mr M had been maintaining the account relatively well across the four-month period since it had been opened. The checks Tesco Bank completed didn't suggest Mr M had any recent problems with managing his finances. While I've seen the credit check Tesco Bank completed did show defaulted accounts and an outstanding defaulted balance, I'm satisfied it was reasonable for Tesco Bank to consider this historic, based on the number of months since the last default had been registered. And the credit information suggests Mr M had been maintaining his other lines of credit relatively well since.

So, based on the information Tesco Bank identified I'm satisfied its checks were reasonable and proportionate, and that it went on to make a fair lending decision when approving this first limit increase.

### The 2<sup>nd</sup> and 3<sup>rd</sup> limit increases in 2020

Tesco Bank has said its checks at limit increases two and three consisted of gathering the same information as I've set out above. So, Tesco Bank considered Mr M's management of the credit card, as well as the results of credit checks it completed at each lending event.

It's confirmed it didn't agree a limit increase in early 2018 because Mr M's credit utilisation was at 99%; and this was against its lending criteria at that time. But it has gone on to say that its lending policy will change over time, and that just because it declined an increase at one point in time based on a certain level of credit utilisation, doesn't mean it wouldn't be approved at a different point if its criteria changed. It's said it completes two reviews of a customer's financial situation across a period of time before any limit increase is approved, to ensure a customer's financial circumstances haven't significantly declined. It says this allows it to ensure a customer's circumstances are consistent before responsibly agreeing any further limit increases.

In relation to these limit increases it's said they were modest, and based on the information its checks identified it considers they were also proportionate, and that its lending decisions were fair.

I've carefully considered Tesco Bank's arguments here; but I'm not persuaded by them.

I say this because while Tesco Bank may consider the limit increases modest, it has an obligation to lend responsibly, ensuring a customer can sustainably repay the borrowing being provided over the full term of the credit. I understand why it completes two sets of checks before agreeing limit increases, but it needs to take into account the information it obtains through these checks. And I don't consider it reasonably did that at either of these lending events.

I say this because I've reviewed Mr M's management of his credit card leading up to the limit increase in April 2020 (as I've said above Tesco Bank has confirmed it reviews the account management as part of its checks). Across the 12 months leading up to this increase, Mr M's credit utilisation averaged 98% of the available limit; and it didn't drop below 96% in any month across this period. I've also seen that in at least six of the months Mr M was making payments at the minimum contractual payment, or a couple of pounds above it.

If I expand the review to cover the 18 months before the second limit increase, Mr M's credit utilisation also averages out to be at 98% across this extended period, and again never drops below 96% across any of the 18 months.

So, while taking into account there was no recent adverse information reported on Mr M's credit file, I consider Mr M's management of the account ought reasonably to have caused Tesco Bank concern. I therefore consider its checks ought reasonably to have gone a step further, by looking to verify Mr M's income and understand his regular non-discretionary expenditure, to ensure further limit increases would be sustainably affordable for him.

Mr M has provided us with bank statements leading up to the two lending decisions in 2020. In the absence of any other information, I consider Mr M's statements reasonably allow me to gain an understanding of what Tesco Bank would likely have identified about Mr M's financial circumstances in 2020, had it completed proportionate checks.

Mr M's bank statements don't present as someone who is in control of their finances. While they evidence a relatively reasonable level of income, the account is largely run in an overdraft position. There are a number of credits from and payments to high-cost lenders, as well as payments towards Step Change, a debt charity. However, more concerning are the large volume of transactions towards online gambling companies.

There are over 100 transactions to online gambling companies across the three-month period, totalling over £7,500. I therefore consider had Tesco Bank completed proportionate checks it would have identified that any further lending wouldn't be sustainably affordable for

Mr M, and that he wasn't a suitable candidate to provide further lending to. Therefore, for this reason I don't consider Tesco Bank's lending decisions in 2020 were fair.

### **Putting things right**

I don't consider Tesco Personal Finance PLC trading as Tesco Bank should have increased Mr M's credit limit above £600, so it therefore follows it's not fair for it to apply any interest or charges on any balances which exceeded that limit. However, Mr M has had the use of all the money he spent on the account, so I think he should pay this back. Therefore, Tesco Personal Finance PLC trading as Tesco Bank should:

- Rework the account removing all interest, fees, charges and insurances (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 M along with 8% simple interest per year\* calculated from the date of each overpayment to the date of settlement. Tesco Personal Finance PLC trading as Tesco Bank should also remove all adverse information recorded after April 2020 regarding this account from Mr M's credit file.
- Or, if after the rework the outstanding balance still exceeds £600, Tesco Personal Finance PLC trading as Tesco Bank should arrange an affordable repayment plan with Mr M for the remaining amount. Once Mr M has cleared the outstanding balance, any adverse information recorded after April 2020 in relation to the account should be removed from their credit file.

\*HM Revenue & Customs requires Tesco Personal Finance PLC trading as Tesco Bank to deduct tax from any award of interest. It must give Mr M 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.

### **My final decision**

My final decision is that I'm upholding Mr M's complaint about Tesco Personal Finance PLC trading as Tesco Bank, and I direct it to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 22 February 2024.

Richard Turner  
**Ombudsman**