

The complaint

Mr E complains that Tesco Personal Finance PLC trading as Tesco Bank (Tesco) lent to him irresponsibly.

What happened

Mr E applied for a credit card from Tesco and in July 2022, it was agreed. Mr E then asked for an increase in the limit in January 2023, and that was also agreed.

Date	Limit
5 July 2022	£4,900 (new credit card)
5 January 2023	£5,900

In October 2023, Mr E entered into a debt management agreement (DMA) and Tesco agreed a standstill on the account. From the start of the credit card, no interest was charged – because Mr E had a 0% offer, due to expire in June 2024.

Mr E complained that Tesco lent to him irresponsibly. He said Tesco couldn't have carried out sufficient checks as he had gambling problems, was struggling and was in financial difficulty. He had to use other credit and loans to meet the payments to the Tesco card. All of this meant he was now in more financial trouble as a result of having the credit card and being able to spend more.

Tesco didn't uphold Mr E's complaint; and said they carried out the necessary checks. At the time of applying for the card, Mr E said his income was £1,800 per month. He had other debts of £27,114, and no adverse marks on his credit file such as CCJs, IVAs or bankruptcies. He was making the necessary payments to other lenders, with no arrears – so he was managing his finances well.

Tesco did an affordability assessment (using national average data) and this showed he had sufficient funds each month to manage his borrowing and living costs.

When Mr E asked for an increase in the limit, they did similar tests. This said his monthly income had gone up to £2,146, and his other debts increased to £30,708. Tesco said this wouldn't have meant Mr E would be considered overindebted.

Tesco said Mr E advised them on 13 October 2023 that he was seeking help from a DMA. From that time, they put a hold on the account to give him breathing space to get the advice he needed. They referred him to their Financial Assist team. In November 2023, the balance was £5,891.

Our investigator didn't uphold the complaint. He said:

- On the issue of the card, Tesco worked out he had spare income of £122 per month after living costs and debt payments.
- On the increase in limit, Mr E had taken on more debt – up to £30,700, so his payments also went up. Because of that, he said it would've been proportionate for Tesco to carry out a more thorough review of Mr E's finances before increasing the limit.
- Part of those extra checks would've been to look at Mr E's bank statements, which our investigator did. And these showed no signs of financial difficulty. So – it was unlikely that Tesco would've been concerned and would have lent the money in any case.
- He also noted that Mr E hadn't paid any interest or fees since the account was opened. And as he had now been placed on a 'hold', that was likely to continue.
- Even if he was to recommend a refund of interest and fees, this wouldn't amount to anything, and Mr E would still have to repay the money he'd borrowed.

Mr E asked that an ombudsman look at his complaint and so it has come to me.

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.

All lenders have an obligation to lend money responsibly. We must check whether Tesco acted in line within the Financial Conduct Authority (FCA) rules on creditworthiness assessment as set out in its handbook, (CONC) section 5.2. These say that a firm must undertake a reasonable assessment of creditworthiness, considering both the risk to it of the customer not making the repayments, as well as the risk to the customer of not being able to make repayments. We look at:

- Whether the lender completed reasonable and proportionate checks to satisfy itself that the borrower would be able to repay any credit in a sustainable way?
- If reasonable and proportionate checks were completed, did the lender make a fair lending decision bearing in mind the information gathered and what the lender knew about the borrower's circumstances?
- And a reasonable and proportionate check would usually need to be *more* thorough:
 - the lower a customer's income, and the higher amount to be repaid.
 - the greater the number of loans and frequency of loans.
 - the longer the term of the loans

It's important to note that the checks must be proportionate to the amount being lent – so the higher the amount, the greater the checks must be, and the lower the amount, then fewer checks can be made.

I looked at the checks Tesco carried out with this guidance in mind. I can see from Tesco's assessment of the credit card:

Issue of credit card – limit £4,900 – July 2022:

- Mr E said he had a monthly income of £1,800, lived with his partner and had no dependents.
- He had no defaults, CCJs, IVAs, or bankruptcies, or any other adverse data on his credit records.
- He had other loan/credit balances of £24,796, plus revolving debit balances of £1,009. Outgoings were £1,678 per month (including his debt payments and living costs) – which left £122 each month for new debt payments.
- I can see that Mr E was making all his debt payments without any missed or late payments.
- Therefore, Tesco considered the lending to be affordable.

I considered this – and I think it's reasonable to say that while the payments were just affordable, the 'margin' of £122 per month was slim and left little room for any unforeseen expenditure or shocks. But – I can see that on balance, Tesco completed the proportionate checks they were required to when issuing the card in July 2022.

Increase in credit limit to £5,900 – January 2023:

- When Tesco looked at the requested increase, Mr E's monthly salary had gone up to £2,146 and his debts increased to £30,708.
- Given that the amount left for debt payments (when the card was issued) was only £122, it seems reasonable to me that Tesco should've made more inquiries before increasing Mr E's limit. His debts had gone up by £6,000 in six months – which is a lot (25%). And it's therefore not certain that Mr E could afford the increased borrowing.
- So, Tesco should've made more checks and asked some questions of Mr E about his circumstances. This would typically mean - asking to see his bank statements to get a better picture.

So – I've gone on to consider what Tesco would've seen if they'd asked for Mr E's bank statements. Mr E showed these to us (for a joint account and a sole account in his name) – dated from May 2022 to January 2023. And – these show, in general, credit balances of around £1,000 to £2,000. So –these showed Mr E was not under any obvious financial pressure and was managing his finances well. So – it's also likely that's what Tesco would also have seen and concluded.

So – on balance, even if Tesco had asked for the bank statements, they would likely have gone ahead and lent the money to Mr E – and the checks they would have completed would've been proportionate and appropriate.

I then looked at Mr E's credit file. I wanted to ensure that what Tesco saw of his circumstances were accurate. This showed that when Mr E took the card in July 2022 and when the limit was increased in January 2023, Mr E's debts were around £27,000 to £28,000 (plus a mortgage of £139,000). This is in line with what Tesco could see. But the credit file also showed Mr E was making the payments to all his credit agreements, with no arrears or missed payments. So – I think it's reasonable for me to say that Tesco saw that as well, and concluded he was managing his finances satisfactorily.

We also asked to see Tesco's customer notes to see if Mr E had advised the bank about his gambling – as if he did, we would've expected Tesco to take account of this in their checks. Tesco showed us the notes and there's no reference to Mr E advising Tesco of his problems. Mr E told us he did call Tesco and told them; but I can only go on the evidence I can see, and there's no reference in Tesco's records of that happening.

So, in summary, I'm satisfied that on balance, Tesco completed the necessary and proportionate checks. And while they should've reasonably looked more closely at Mr E's circumstances in January 2023 – what they would've seen then was that his financial situation appeared satisfactory.

I then considered what we would do if I found the lending to be irresponsible (which I don't). And here, our remedy would be to ask Tesco to refund interest and fees paid. But - I noted that nothing has been charged because Mr E is on a zero-interest deal until June 2024. And we wouldn't ask Tesco to write off all or part of the debt – as Mr E has had the use of the money.

So, in other words, there's little I can ask Tesco to do here. And I can see that Tesco have put the account on hold while Mr E works through the DMA – which is what we would expect Tesco to do for customers in financial difficulty.

So, while this will be disappointing for Mr E, I'm not asking Tesco to do anything here.

My final decision

I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 27 March 2024.

Martin Lord
Ombudsman