

The complaint

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

What happened

Mr B applied for a credit card from Tesco in February 2019, and it was agreed with a limit of £250. Mr B then asked for two increases in limit, which were also agreed as shown:

Date	Limit
February 2019	£250
May 2019	£600
July 2019	£900

Mr B complained that he shouldn't have been given the card, nor the increases in limit. He said he had many other cards and debts at the time, and Tesco should've seen this and not lent the money to him. He says Tesco should refund the interest and fees he's paid.

Tesco said Mr B passed their credit checks at each stage, including checks at credit reference agencies (CRAs). In his application for the card, he said his income was £1,900 per month; and they worked out his disposable monthly income was over £500. There were no 'red flags' on his credit records such as debt management plans, county court judgements or defaults.

When Mr B asked for the increases via the mobile app, they worked out he had disposable income of £1,700 in May 2019 and £1,200 in July 2019. Mr B was maintaining his payments to the account. So – Tesco said they'd carried out the necessary checks and lent responsibly.

Mr B brought his complaint to us and *our investigator said*:

- The first issue of the card and first increase in limit were reasonable.
- But for the second increase in limit (to £900 in July 2019), Tesco should've seen that Mr B's debts had increased from £5,236 (May 2019) to £7,391. This was high in comparison to his annual income. Had Tesco done more checks, they'd have seen that Mr B had significant amounts of external debt. Mr B was also showing signs of struggling – as he had made two cash withdrawals on the credit card. Tesco should therefore have made further enquires, including looking at Mr B's bank statements. Had this have been done, they would've seen he was relying on an overdraft (of around £2,000).

- Our investigator said Tesco should refund interest and fees charged on balances over £600 after July 2019.

Tesco disagreed. They said they'd carried out sufficient and proportionate checks and at the time of the second limit increase, they estimated Mr B's income to be £53,750 per annum. There was no adverse data found in their checks. He hadn't missed any payments to the card and was managing his account well. And two cash withdrawals weren't excessive so as to be taken as a warning sign. The credit card limits were low in value and external debts of £7,391 were not excessive compared to his salary.

Our investigator disagreed with Tesco's further points and didn't change his view. Tesco asked that an ombudsman look at Mr B's complaint. So, it has come to me to do that.

I issued a provisional decision which didn't uphold Mr B's complaint:

All lenders have an obligation to lend money responsibly. We have to 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 Mr B's complaint with this guidance in mind, and especially the last point – as all the limits agreed for Mr B were of a modest low value.

Issue of credit card (February 2019) and first limit increase (May 2019):

When Mr B applied for the card, Tesco could see that he was employed and he'd said his income was £1,900 per month. Tesco allowed for living costs and worked out that each month, he had £570 spare cash ('disposable income'). He had no adverse signs showing on his credit records such as CCJs or defaults. And while there were other debts of £5,979, these were paid up to date – so Mr B appeared to be managing his finances well. So they issued the card. Given all of this, I consider Tesco carried out the necessary checks.

When Mr B asked for the first increase (May 2019, to £600), the data Tesco saw was little changed – the external debt was £5,236. So here, I agree Tesco carried out the correct and proportionate checks.

Limit increase to £900 – July 2019:

Tesco told us that they worked out that Mr B's salary had by then increased to over £50,000 per annum – this looks to be a very high uplift to me, and I've not seen any confirmation of this from Mr B. So I discount that information.

Tesco could then see that Mr B's other debts had increased to £7,391. The consideration of this is the important factor in this decision.

Mr B showed us his credit report, and this does show that at this time, he had debts with six other lenders totalling around £7,000 – as Tesco's research showed. But here, I don't consider debts of this figure to be excessive when compared to Mr B's net income of (say) £1,900 per month (net of tax £22,800 per annum), and in comparison with the low limits agreed by Tesco. And I can also see:

- Mr B was maintaining payments to all his credit agreements, with no missed payments.
- He had no defaults or judgments against him for non-payment.
- He was making all the necessary payments to his Tesco card account.
- In other words, he was managing his various finances well.
- His credit file showed that *after* the limit increase (July 2019), he then took on more debt. I can see he borrowed from about 20 other lenders *after* July 2019. So - I think it's fair to say that Mr B's financial difficulties started after he took the further borrowing from Tesco. And – we can't reasonably expect Tesco to have known that was going to happen. We can only expect them to make a decision on what they could see in July 2019.
- The limits were low in value, and Tesco's checks can be proportionate – in other words they can make fewer checks in Mr B's case.

I can see that Mr B did make two cash withdrawals – but of themselves, in the context of Mr B's overall financial situation, I don't think that should've caused Tesco to make further inquiries.

Therefore, my provisional decision is that Tesco did complete the necessary and proportionate checks, and I don't intend to ask them to take any action here.

Responses to the provisional decision:

Tesco agreed with the provisional decision.

Mr B said his salary didn't increase to over £50,000, so Tesco shouldn't have made a decision to lend more money to him based on that.

I now need to consider these comments and make a final decision.

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.

I've considered what Mr B has said about his salary increase. But – I didn't rely on this, as I agreed the increase wasn't likely – so in the provisional decision, I discounted this.

Setting this aside, I still think that based on Mr B's salary of around £22,800 per annum and debts of £7,000, I think Tesco's decision to lend was reasonable - based on the information they had available at the time.

So – my final decision is unchanged from the provisional decision.

My final decision

I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 5 March 2024.

Martin Lord
Ombudsman