

## The complaint

Ms D complains Tesco Personal Finance PLC trading as Tesco Bank provided her with two unaffordable credit cards.

## What happened

Tesco Bank provided Ms D with two credit cards with the following details:

Account	Lending decision	Date	Credit Limit
One	Original limit	April 2018	£4,900
Two	Original limit	February 2019	£3,200*

*\*Ms D's limit on the second credit card was decreased in May and July 2019*

Ms D complained to Tesco Bank in August 2023 saying both credit cards had been irresponsibly lent. She said had Tesco Bank conducted proportionate checks it would have identified each of the credit limits were unaffordable for her.

Tesco Bank didn't uphold the complaint saying its checks were proportionate and that it went on to make fair lending decisions.

Our Investigator reviewed Ms D's complaint and upheld it. She didn't think Tesco Bank's checks when providing either card were proportionate; or that it had made fair lending decisions when providing Ms D with these lines of credit.

Ms D accepted the outcome; Tesco Bank disagreed in part. It ultimately agreed with the uphold on credit card two; but didn't agree that credit card one should be upheld. It maintained its argument that its checks were proportionate for the type and amount of credit it provided, and therefore that further and more detailed checks weren't required. It maintained its position that it fairly provided Ms D with the first credit card.

As an agreement couldn't be reached the complaint has been passed to me to decide.

## 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.

Having done so I've reached the same outcome as our Investigator; for broadly the same reasons.

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 Ms D 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 Ms D. 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 Ms D's ability to afford the credit limit being approved and repay it sustainably, without causing her 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.

#### Credit card one provided in April 2018

Tesco Bank has said its checks consisted of obtaining Ms D's declared income of around £1,650 per month, and calculating her regular monthly outgoings using Office of National Statistics (ONS) data. It completed a credit check to identify Ms D's existing lines of credit; and to review her management of credit for both her active and recently closed accounts.

It's said it completed an affordability assessment by reviewing this information and using its own internal scoring data to determine the lending was sustainably affordable for Ms D. It calculated Ms D would be left with around £400 per month taking all regular expenses and credit commitments into account, including repayment to this new line of credit.

Tesco Bank has maintained its argument that its checks were proportionate to the type and amount of credit it was providing; and that it went on to make a fair lending decision.

I've carefully considered Tesco Bank's argument; but I'm not persuaded its checks were proportionate, or that it went on to make a fair lending decision in this instance.

I say this because Tesco Bank was providing Ms D with a relatively sizeable limit in comparison to her declared income; and it was in effect doubling the amount of credit Ms D had available to her. Given the type and amount of credit being provided, I consider proportionate checks ought to have led to Tesco Bank verifying Ms D's actual income and expenditure; for it to have obtained a better understanding of her overall financial circumstances at the time.

Ms D has provided us with bank statements covering the three months leading up to this card being approved. In the absence of any other information, I consider these statements allow me to obtain a reasonable understanding of Ms D's financial circumstances at the time; and what Tesco Bank would likely have identified had it completed proportionate checks.

Ms D's salary is evidenced as around £1,660 on average per month across the three-month period. Ms D also received regular monthly benefits totalling around £420. So, Ms D's average income across the three months is around £2,080, and I consider this is what Tesco Bank would reasonably have taken into account.

The statements show regular non-discretionary expenditure towards housing, council tax, insurances, utilities, media subscriptions, petrol and food. These average around £1,500 per month across this period.

I've also seen Ms D's payments towards her existing credit commitments. Tesco Bank identified Ms D had around £5,200 of existing credit excluding mortgages at the point of this application. This credit all appears to be across revolving credit accounts, to which Tesco Bank allocated £65 per month, equating to around 1.25% of the total outstanding balance.

I don't consider 1.25% monthly repayments to be at a level that would lead to Ms D repaying the debt within a reasonable period of time. I've therefore used 5% of the total outstanding balance as I consider this to be a more reasonable level. Therefore, I consider Tesco Bank ought reasonably to have used a figure of around £250 towards Ms D's existing debts.

Tesco Bank also needed to consider reasonable repayments to the line of credit it was providing Ms D. It needed to make this calculation based on Ms D utilising the full limit. So, as Tesco Bank was providing Ms D with a limit just under £5,000, it follows it needed to also apportion around £250 per month for payments to this credit card.

I therefore consider Tesco Bank needed to use a figure of around £500 towards Ms D's total credit commitments.

So, taking into account Ms D's income of around £2,080, her non-discretionary spending of around £1,500, and repayments to her existing lines of credit and this new line of credit, on average Ms D would be left with less than £100 disposable income per month.

I'm not persuaded that being left with less than £100 disposable income would give Ms D a reasonable level of funds to sustainably cover other living costs and support any unexpected costs that may occur from month to month; especially given Tesco Bank obtained Ms D's declaration within the application that she had two dependents she was responsible for.

So, I consider had Tesco Bank completed proportionate checks it would have identified this credit wouldn't be sustainably affordable for Ms D; and it therefore follows I don't consider it made a fair lending decision when providing Ms D with this credit limit.

#### Credit card two provided in February 2019

Tesco Bank ultimately agreed to our Investigator's uphold outcome for the second credit card which Ms D accepted. As such there's no longer an active dispute in relation to this lending decision, so I see no reason for me to go into the details of this account further.

However, I will set out that I'm satisfied, based on the evidence I've reviewed, that Tesco Bank didn't complete proportionate checks or go on to make a fair lending decision when providing this second credit card account in February 2019.

#### **Putting things right**

I don't consider Tesco Personal Finance PLC trading as Tesco Bank should have provided Ms D with either credit cards, so it therefore follows it's not fair for it to apply any interest or charges on any balances. However, Ms D has had the use of the money she's spent on the accounts, so I think she should pay this back. Therefore, Tesco Personal Finance PLC trading as Tesco Bank should:

- Rework the accounts removing all interest, fees, charges and insurances (not already refunded) that have been applied.
- If the rework results in a credit balance, this should be refunded to Ms D 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 any adverse information recorded about these accounts from Ms D's credit file.
- Or, if after the rework there is an outstanding balance Tesco Personal Finance PLC trading as Tesco Bank should arrange an affordable/suitable repayment plan with Ms D for the

remaining amounts. Once Ms D has cleared the outstanding balances, any adverse information recorded in relation to the accounts should be removed from her credit file.

If Tesco Personal Finance PLC trading as Tesco Bank has sold the debts to a third party, it must ensure the above action is taken by liaising with the third party or buying back the debt.

\*HM Revenue & Customs requires Tesco Personal Finance PLC trading as Tesco Bank to deduct tax from any award of interest. It must give Ms D a certificate showing how much tax has been taken off if she 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 Ms D'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 Ms D to accept or reject my decision before 18 April 2024.

Richard Turner  
**Ombudsman**