

The complaint

Mrs P, complains that Tesco Personal Finance PLC (“Tesco”) irresponsibly granted her a credit card that she couldn’t afford to repay.

What happened

Mrs P entered into an agreement with Tesco to have access to credit with a credit card account. The account was opened in September 2018 with a credit limit of £500. There followed a total of 12 credit limit increases, between January 2019 and August 2022, with the credit limit on the card reaching £5,800.

Mrs P says that Tesco didn’t complete adequate affordability checks when it granted her the card and then went on to increase her credit limits. She says if it had, it would have seen that it wasn’t affordable for her as she was already struggling with other debt so having the card with the increased limits worsened her financial position.

Our investigator said that Tesco shouldn’t have gone on to increase Mrs P’s credit limits beyond the first credit limit increase to £800 in January 2019.

As Tesco doesn’t agree with our investigator’s finding, the complaint has come to me for 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.

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.

Our investigator decided to uphold this complaint, saying that Tesco ought not to have increased Mrs P’s credit limit after granting the first credit limit increase in January 2019. Having reviewed all the available evidence and information I am in agreement and will explain why.

Account opening and first credit limit increase

The credit check Tesco completed looked into Mrs P’s financial circumstances, using information obtained from credit reference agencies. Tesco also relied on information Mrs P gave on her application, such as her income. Mrs P said she had an annual income of around £25,000, which worked out to a monthly net income of around £1,700. There was no evidence of Mrs P having any recent defaults or other adverse markings on her credit file – although she did have five historic defaults. Tesco’s checks showed that Mrs P owed just over £600 in other outstanding credit at that point. But just because it looks as if Tesco

carried out proportionate checks, it doesn't automatically mean it made a fair lending decision. So, I've thought about what the evidence and information showed.

Having done so, I'm satisfied that the checks for the opening credit showed it was likely to be affordable to Mrs P. I say this because, given the available information about her income and debt, it was likely that the relatively modest opening credit limit of £500 would be affordable for her and she could manage the repayments at that level going forwards. I therefore don't think Tesco acted unfairly when it approved the opening credit.

Also, from what I've seen, I agree that based on the information that was available to Tesco, the first credit limit increase in January 2019 up to £800 was likely to be affordable. And taking into consideration Mrs P's wider financial circumstances at that point, the repayments were also likely to have been something she could sustainably manage.

The later credit limit increases

Tesco says that the type of card account that Mrs P had applied for was intended for consumers wishing to rebuild their credit file. So Tesco says it's part of the card credit profile for regular incremental increases to be given. But before granting any further increases Tesco nevertheless needed to be assured that its checks were reasonable and proportionate. That means the card needed to remain affordable for Mrs P as she continued to use it and that she should be able to repay it in a sustainable way. To do this properly, Tesco would need to be aware of not only how Mrs P was managing her card, but that she was able to manage it within her wider financial circumstances.

Tesco says it relied on statistical information to form a picture of what Mrs P's regular financial commitments might be, whilst also carrying out credit checks. I should say that sometimes it won't be enough for a business simply to establish that a consumer is keeping up to date with their credit repayments. Their wider financial circumstances must also be taken into consideration.

From what I've seen I think it would have been proportionate for Tesco to have taken steps to find out more about any changes to Mrs P's financial circumstances, focusing on other committed expenditure and living costs as well as the overall level of credit that was available to her. The increases may have been in increments of £300 but they were at regular intervals of 3-4 months and taken together represented a significant increase in the credit available to her. So by April 2019, seven months after opening her account, her credit limit had more than doubled, to £1,100.

I think Mrs P's bank statements give a fair indication of what Tesco might have found had it taken additional steps to satisfy itself that Mrs P was in a position to be able to sustainably repay each of the limit increases that followed. I agree with our investigator that by April 2019 Mrs P was having to fund credit repayments and other committed expenditure to an extent that looked to be exceeding her typical monthly income. Had Tesco taken steps to find this out, I think it would have seen this as a source of concern in terms of Mrs P's ability to manage her debt alongside her daily living costs. To give examples, I can see that going forward from early 2019, Mrs P was taking on a substantial amount of credit. In February 2019 Mrs P took out £3,000 worth of unsecured high cost loans from separate lenders, costing her around £320 per month in instalments. She also took on a secured loan at a cost of around £420 per month. In the same month Mrs P was making payments to a separate credit card totalling around £1,000. This was in addition to her monthly committed expenditure, including household costs.

I can see that Mrs P continued to make use of her credit card to the same if not a greater extent going forwards whilst also having to meet the loan repayments I've mentioned. At the same time Tesco was granting her further credit limit increases. I should add that I don't think the moderate variations in her monthly income that I've seen were enough to materially improve her financial situation. I agree that the monthly credit card, loan and mortgage repayments meant she was having to find somewhere between £1,900 and £2,800 each month to cover credit costs – and often higher. And that figure doesn't include daily living costs such as food and transport.

Taking everything I've seen into consideration, I think the bank statement details suggest very strongly that Mrs P wasn't in a position to be able to sustainably repay the escalating level of credit on her card. This means that Mrs P was at real risk of experiencing a substantial deterioration in her financial situation. So I therefore also find it difficult to understand why Tesco increased Mrs P's credit limit by £2,000 in August 2022 without taking action to better understand and verify her regular income and outgoings.

It follows that I agree with our investigator that Tesco ought not to have increased Mrs P's credit limit after it had given her the opening credit and initial increase in January 2019.

Putting things right – what Tesco needs to do

Tesco shouldn't have increased Mrs P's credit limit to £1,100 on 16 April 2019. Tesco therefore needs to do the following:

- Rework Mrs P's account to ensure that all interest and charges should be removed from the account for balances over £800, being the previous credit limit increase. 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 Mrs P to arrange an affordable repayment plan for the account. Once Mrs P has repaid the outstanding balance, it should remove any adverse information recorded on Mrs P's credit file from 16 April 2019 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 Mrs P, 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 Mrs P's credit file from 16 April 2019.

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

My final decision

I therefore uphold this complaint in part and require Tesco Personal Finance PLC to pay compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs P to accept or reject my decision before 15 March 2024.

Michael Goldberg
Ombudsman

