

The complaint

Mr J complains that Tesco Personal Finance PLC irresponsibly provided him with a credit card account he couldn't afford. He's also unhappy with the credit limit increase (CLI) it subsequently applied to the account.

What happened

In September 2015 Tesco opened a credit card account for Mr J. The credit limit was set at £3,300 and was increased to £6,300 in February 2017.

In 2023, Mr J complained to Tesco that it shouldn't have given him the credit card or the subsequent CLI. He said Tesco hadn't completed appropriate affordability checks before providing the credit or, if it had, it overlooked that Mr J was in financial difficulty.

Tesco didn't uphold the complaint. It said it had carried out appropriate checks which showed Mr J could afford the credit it had provided him with.

Unhappy with Tesco's response, Mr J complained to this service. Our investigator recommended that Mr J's complaint should be upheld. They said the credit was likely to be unaffordable for him from the start and asked it to put things right for him.

Tesco agreed to put things right in relation to the CLI. But it didn't agree with the investigator that the initial lending was unaffordable.

Because the investigator couldn't resolve the case informally, it was passed to me to review afresh.

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 uphold the complaint. I'll explain why.

Prior to each lending decision, Tesco was required to ensure it carried out affordability checks. That's irrespective of whether, as Tesco argued in response to the investigator's assessment, its lending criteria were met. There isn't a set list of checks it needed to complete but it needed to ensure those checks were proportionate in the circumstances. What's considered proportionate will vary taking account of things such as (but not limited to) the amount of credit, the cost, and the borrower's circumstances.

Tesco's agreed to put things right for Mr J regarding the CLI. As such, I see no need to address that issue in any great detail in this decision. Aside, that is, from simply confirming that I broadly agree with the investigator's reasons for upholding that aspect of the complaint.

Turning to Tesco's initial lending decision, from Mr J's application, Tesco was aware he was a homeowner with a mortgage and was living with his partner. He was employed and its checks suggested he had a net monthly income of £1,160. In terms of monthly outgoings, Tesco recorded a figure of £827, leading it to the conclusion that Mr J could afford a credit limit of £3,300 after all deductions.

In addition, Tesco obtained information about Mr J's credit history via two credit reference agencies (CRAs). It says these checks didn't indicate any adverse information on his file such as County Court Judgments (CCJs), bankruptcies, defaults or arrears.

While I can see Tesco did carry out some checks following Mr J's application, I don't believe these were reasonable and proportionate in the circumstances. I say that because, for example, the amount of credit being extended was significant in relation to his net monthly income at almost 300%. And although Tesco obtained some information around Mr J's outgoings, this seems largely to have been based on the information provided by the CRAs and/or its own estimates rather than by asking Mr J or carrying out any validation checks of its own to ensure accuracy.

Given the lack of information gathered about Mr J's regular expenditure, I think it would have been reasonable for Tesco to carry out further affordability checks before providing the credit.

In trying to create a picture of Mr J's finances in 2015, I've placed emphasis on things like his bank statements from that time and a credit report he's provided us with. These lead me to believe that, had Tesco carried out more checks in 2015, it probably would have seen there were occasions prior to September where Mr J had more money leaving his current account than going in. This also led to periods in which he was using his overdraft.

Although these periods were fairly limited and short-lived, I consider that Tesco ought to have weighed them up together with the potential impact of an additional £3,300 of credit, which was a considerable amount.

Given all of this, I think Tesco ought to have become aware that providing Mr J with £3,300 worth of credit in 2015 was likely to be unaffordable for him and might cause him financial difficulty. So, I don't believe Tesco made a responsible lending decision when it offered him the account in 2015, despite carrying out the checks that it did and its review of its own lending criteria.

Putting things right

Tesco should put things right for Mr J from the start of the credit card account, albeit he's had the benefit of the money borrowed and so may need to repay the principal amounts. So, Tesco should:

- Rework Mr J's credit card account so that all the interest, fees and charges applied to it from the start are removed.
- If an outstanding balance remains on the account once these adjustments have been made, Tesco should contact Mr J to arrange a suitable repayment plan for this.
- If no outstanding balance remains, any relevant adverse information should be removed from the credit file.

And

- If the refund means there's no remaining balance on the account, any extra should be treated as overpayments and returned to Mr J.

And

- Pay interest of 8% simple a year on any overpayments from the date they were made (if they were) to the date of settlement†.

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

My final decision

For the reasons given, I uphold this complaint. I require Tesco Ltd to put things right for Mr J as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 12 April 2024.

Nimish Patel
Ombudsman