

## The complaint

Miss J complains that Tesco Personal Finance PLC (trading as Tesco Bank) was irresponsible to lend to her.

## What happened

Miss J was approved for a credit card with Tesco as follows:

	<u>Date</u>	<u>Limit</u>
Initial application	5 Jun 2022	£1,400
Credit Limit increase	13 Oct 2023	£2,000

Miss J says that Tesco should have checked her credit file when she applied for the card and, had it done so, it would have seen she was at her overdraft limit and had an existing card for which she regularly missed her repayments. She says her income was insufficient to afford any new credit.

Tesco says that when Miss J applied for the card it asked her about her income and checked her credit file. It says there were no indications of missed payments in the previous six months and no other adverse data. Tesco says its checks showed that Miss J was not over-indebted and had sufficient disposable income to afford the repayments.

Our investigator recommended the complaint should be upheld. He wasn't satisfied that Tesco had carried out proportionate checks and he found that, had it done so, it would have seen indications that further lending was unsustainable for Miss J.

Tesco responded to say, in summary, that:

- It used industry standard estimates for housing and debt repayments;
- Its estimate for living costs was originally 35% of income, but as Miss J had no dependants, there was no reason for this to be more than the 30% industry standard;
- This left Miss J with a disposable income of £211.50 which it considered acceptable.

Tesco added that it is an unreal expectation to remove automatic decision-making from lending assessments.

## 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 need to take into account the relevant rules, guidance and good industry practice.

Bearing this in mind, in coming to a decision on Miss J's case, I have considered the following questions:

- Did Tesco complete reasonable and proportionate checks when assessing Miss J's application and credit limits to satisfy itself that she would be able to repay the credit in a sustainable way?
  - If not, what would reasonable and proportionate checks have shown?
- Did Tesco make fair lending decisions?
- Did Tesco act unfairly or unreasonably in some other way?

#### Initial application

When Miss J applied for the card, I've seen evidence to show Tesco asked her about her income and checked her credit file. These checks showed:

- Miss J was single, with no dependants;
- She was a tenant;
- A declared income of around £1,500 monthly;
- A total credit card balance of £1,050;
- An unsecured loan balance of £17,479 with monthly repayments of £266;
- No adverse information on Miss J's credit file;
- An estimated disposable income of £130 per month.

Based on the above, I don't consider Tesco had enough information on which to make a fair lending decision. I say that because:

- A credit card is a long-term open-ended commitment and Tesco needed to ensure the repayments on the higher limit were sustainable;
- I haven't seen any evidence that shows Tesco verified Miss J's income;
- Miss J already needed to commit over 21% of her declared income to sustainably repay her existing credit – including the new lending this figure rose to around 26%;
- Tesco used an estimate for Miss J's housing and other living expenditure;
- An estimated disposable income of £130 per month is not sufficient to be confident that new lending is affordable.

So, I consider Tesco should have found out more about Miss J's financial circumstances before it approved the application. As such, I've looked at Miss J's bank statements from the time and found:

- Miss J's income was about £1,600 per month at the time of the initial application;
- Rent was £200, with council tax and utilities coming to £120;
- Car finance, insurance and petrol came to about £420 monthly;
- Gym and medical costs, including therapy and opticians, came to around £360;
- Phone and TV costs totalled £80;
- Existing credit card payments and overdraft interest were £80;

- Groceries were costing around £300 per month.

This left Miss J with very little disposable income each month and her bank statements showed her income was less than her overdraft.

I acknowledge that Tesco says removing automatic decision-making is unrealistic, but that is not the intention. In this case its own calculations showed Miss J had limited disposable income and would need to commit over a quarter of her income to credit repayments. Both of these are indications that the lending may not be affordable to her, and I consider using estimates for housing and living costs are not proportionate checks in those circumstances.

In summary, I find proportionate checks would have shown Tesco that further lending was unsustainable for Miss J. So, I don't consider Tesco made a fair lending decision, although I can't see it acted unfairly or unreasonably in any other way.

### **My final decision**

My decision is that I uphold this complaint. Tesco Personal Finance PLC (trading as Tesco Bank) should:

- Rework the account removing all interest and charges that have been applied:
  - If the rework results in a credit balance, this should be refunded to Miss J along with 8% simple interest per year\* calculated from the date of each overpayment to the date of settlement. Tesco should also remove all adverse information regarding this account from Miss J's credit file.
  - Or, if after the rework there is still an outstanding balance, Tesco should arrange an affordable repayment plan with Miss J for the remaining amount. Once Miss J has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

\*HM Revenue & Customs requires Tesco to deduct tax from any interest. It must give Miss J a certificate showing how much tax it's taken off if she asks for one. If Tesco intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss J to accept or reject my decision before 8 May 2024.

Amanda Williams

**Ombudsman**