

The complaint

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

What happened

Mr B was approved for a Tesco credit card on 29 May 2019 with an initial £250 credit limit. Tesco altered the credit limit on multiple occasions which I have detailed below.

February 2020	£250 to £600
September 2020	£600 to £900
September 2021	£900 to £1,200
September 2022	£1,200 to £850

Mr B made a complaint to Tesco that they had irresponsibly lent to him. Tesco did not uphold Mr B's complaint. They said their assessment included reviewing the information found at the Credit Reference Agencies (CRA's). They said it's reasonable for a lender to expect the information being reported to the CRA's to be accurate, and there was no requirement on lenders to check bank statements and so on with every lending decision. Tesco said their checks demonstrated that the lending was likely to be affordable to Mr B in a sustainable way. Mr B brought his complaint to our service.

Our investigator partially upheld Mr B's complaint. She said there was nothing to suggest the initial credit would not be affordable and sustainable for Mr B. She said that although the level of debt Mr B had risen with the next two credit increases (February 2020 and September 2020), his accounts were being managed well and there was nothing to suggest the new limits would not be affordable or sustainable.

Our investigator said that in September 2021, Mr B's debt had drastically changed in the previous 12 months, increasing to around £21,700. She said Mr B's income was showing as going from around £1,500 per month to £4,466 per month, so this should have prompted Tesco to verify this information with Mr B. She says while Mr B confirmed to her that his employment did change around this time, his earnings went from approximately £18,000 to £22,000. Our investigator said it also appeared that Mr B was in receipt of student loans, but these shouldn't have been included in the income received by Mr B. She said based on this, it wasn't responsible to increase Mr B's credit limit from £900 to £1,200.

As Tesco didn't respond to our investigator's view of Mr B's complaint, his complaint was passed to me to review.

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.

Before agreeing to approve the credit limit for Mr B, Tesco needed to make proportionate

checks to determine whether the credit was affordable and sustainable for him. There's no prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include - but are not limited to: the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances.

Initial credit limit - £250

I've looked at what checks Tesco said they did when initially approving Mr B's application. Tesco said they looked at information provided by CRA's and information that Mr B had provided before approving his application.

I'm satisfied that the account opening checks were proportionate. I say this as Tesco had gathered information from a CRA. From this data, the total of unsecured debt he had was £1,903. The application shows an annual gross income of £19,000, with a net monthly income of £1,328. The existing debt being reported to the CRA's at the point of the checks would have been around 10%.

Tesco considered Mr B's living expenses, which were estimated and added to known outgoings and the estimate was £869 a month. So it would appear based on the information Mr B and the CRA gave Tesco that the credit limit of £250 would be affordable for Mr B.

But that's not all Tesco's data showed. The data also showed that Mr B had adverse credit data in the form of a default. So Tesco would have been aware that Mr B had previously not maintained an agreement. But the data also showed he had no bankruptcies, no County Court Judgements (CCJ's) and the default was 24 months prior to his application. The default did show that Mr B defaulted on a £100 balance, which could suggest Mr B may not be able to manage even small amounts of credit.

But it may help to explain here that, while information like a default on someone's credit file may often mean they're not granted further credit – it doesn't automatically mean that a lender won't offer borrowing. Here, Tesco considered the information that Mr B had on his credit file and still made a decision to lend which, in the circumstances, I think was reasonable.

February 2020 credit limit increase - £250 to £600

I've looked at the information that Tesco had available to them when they increased Mr B's credit limit. The increase here was an extra £350. This increase was around nine months after his original application was approved, so Tesco had a fair amount of information to see how he had been managing his account.

I can see that Mr B had incurred an overlimit charge, and a return payment fee, on only his second statement. This may suggest that Mr B may not be managing his finances effectively here. So I've looked at the data Tesco had around the time to get a broader sense of how Mr B was managing his finances prior to his credit limit being increased.

I noticed a difference between the number of defaults shown on his original application and the data Tesco had from the CRA originally. There are two defaults being shown on this data, with the last being registered 23 months earlier, which is different to one default for £100 showing 24 months prior to the application from Mr B.

Tesco have explained that this is because the data they had with the credit limit increases was with a different CRA to the CRA they saw data from at account opening. But as the last

default was 23 months earlier – and therefore a substantial time prior to Mr B applying for this account, then I'm not persuaded this in itself makes the lending unsuitable.

Tesco's data also shows that his unsecured borrowings had increased to £2,965 between the acceptance from the card and the increase in February 2020. But the data from the CRA showed that he had no defaulted accounts (since his Tesco account was opened), no CCJ's or Individual Voluntary Arrangements (IVA's). So I'm satisfied that the checks Tesco carried out here, prior to increasing Mr B's credit limit were proportionate and that Tesco made a fair lending decision to increase his credit limit here.

September 2020 credit limit increase - £600 to £900

I've looked at the information that Tesco had available to them when they increased Mr B's credit limit. The new credit limit was 50% higher than his previous credit limit. So I've looked at the data Tesco had around the time to get a broader sense of how Mr B was managing his finances prior to his credit limit being increased.

At times, Mr B made higher payments than the minimum payments, which would suggest he had the disposable income to make higher repayments than the minimum. In the couple of months leading up to the credit limit increase, he was not at or very close to the credit limit (as he was around 75% or less of the credit limit). So this doesn't show that Mr B constantly needed to always use all of the credit available to him.

Tesco's data also shows that Mr B made no late payments between the last credit increase, to the new credit increase, so he did not appear to be in financial difficulties here. Tesco's data also shows that his unsecured borrowings had increased to £4,758 between the last credit limit increase to the credit limit increase to £900. This would be around 25% of the gross income which was documented on his application data.

But the data from the CRA again showed that he had no further defaulted accounts, no CCJ's, or IVA's. So I'm satisfied that the checks Tesco carried out here, prior to increasing Mr B's credit limit to £900 were proportionate and that Tesco made a fair lending decision to increase his credit limit here.

September 2021 credit limit increase - £900 to £1,200

I've looked at the information that Tesco had available to them when they increased Mr B's credit limit. The increase here was an extra £300. This increase brought the credit limit to nearly five times the amount of the original credit limit. So I've looked at the data Tesco had around the time to get a broader sense of how Mr B was managing his finances prior to his credit limit being increased.

I can see from the data that Tesco had that they had Mr B's verified income as £4,466 a month. This is more than treble the £1,328 a month which was part of the application data. While Mr B could have had a wage rise or a promotion, I'm persuaded that the difference of income from May 2019 to September 2021 (16 months), ought to have prompted further checks to ensure the data was accurate.

Mr B's unsecured borrowings had substantially increased from the previous credit limit increase. They were roughly four times the total unsecured borrowings a year earlier, and they were over ten times the unsecured borrowings total from when Mr B first applied for the Tesco credit card. Tesco have noted that Mr B had taken out a loan which their data shows the monthly repayment was for £550 a month.

But I've also considered that Mr B gave his net monthly income as £1,328 originally, and Tesco had calculated his outgoings as £869 a month. This wouldn't take into account Mr B's future unsecured borrowings at the time they increased his credit limit to £1,200. So if Mr B was still earning £1,328 a month, which was the figure originally on the application date then £869 (original outgoings estimated) + £550 (new loan payment) = £1,419 a month, not to mention his other unsecured borrowings which weren't part of this figure. So the increase could be unaffordable for Mr B if he had the same amount of income as when he applied for the account.

Since the last credit limit increase, I can also see that Mr B went over his credit limit as shown on his February 2021 statement. And he made repayments to the account in July 2021 which appeared to be substantially more than his disposable income, which could be a sign of him using borrowings to pay off the Tesco borrowing.

So given the multiple different factors I've listed above, I'm persuaded that Tesco should have carried out further checks to ensure this latest increase was affordable for Mr B. I'm persuaded that as part of a proportionate check, Tesco should have requested information from Mr B to discuss his finances, to ensure that he had enough disposable income to be able to afford and sustain repayments to the credit card. For example, they could have, as part of a proportionate check, asked Mr B information about his employment and the trebling of the monthly income, to see if he could afford the proposed credit limit to £1,200.

Mr B has provided our service evidence of his employment income from a number of tax years from HM Revenue & Customs (HMRC). For example, his 2019-2020 tax year employment income is shown as £18,369.64 which is not too dissimilar to the £19,000 on his application data. But his employment income shown on the HMRC document for the 2021-2022 tax year shows Mr B had income from two employers – one for £1,643.73, and another for £12,110 for the 2021-2022 tax year (which would be the tax year of the credit limit increase to £1,200 in September 2021). This totalled £13,753.73 income for employment for 2021-2022 tax year.

So it appears that Mr B's circumstances had changed since he opened the account. Mr B has told us that this is because he had student loans. So it appears that a possible reason that Mr B's income was showing as £4,466 a month is if the data incorporated the student loans into the calculation (and/or it could have picked up the further borrowing which credited Mr B's current account). As these would not be regular or sustainable, then these shouldn't have been used for the calculation (if they were).

So I'm not persuaded that a fair lending decision was made for the credit limit increase to £1,200. Mr B did not display the disposable income to be able to make affordable and sustainable repayments for his Tesco credit card at this point with the increased credit limit, which further proportionate checks based on the data they had would have shown Tesco. While I'm aware it would be unlikely Tesco would get the same HMRC data that Mr B has provided us (since the tax year hadn't ended at that point), I'm persuaded that if they simply asked him relevant questions about his income as part of a proportionate check, then I'm persuaded Mr B would have told them about his financial position at the time.

If Tesco had doubts about his answers they could have requested further information or evidence of this. If they would have done this, I'm persuaded they wouldn't have increased the credit limit to £1,200. So it follows, I intend to ask Tesco to put things right for Mr B.

Putting things right

Our investigator suggested that Tesco Personal Finance PLC trading as Tesco Bank should do the following:

Rework the account removing all interest, fees, charges, and insurances (not already refunded) that have been applied to balances above £900 from 29 September 2021

If the rework results in a credit balance, this should be refunded to Mr B 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 his credit file;

Or, if after the rework there is still an outstanding balance, Tesco should arrange an affordable repayment plan with Mr B for the remaining amount. Once Mr B has cleared the balance, any adverse information in relation to the account from 29 September 2021 should be removed from his credit file.

I'm satisfied this is reasonable in the circumstances.

*If Tesco consider that they are required by HM Revenue & Customs to deduct income tax from that interest, they should tell Mr B how much they've taken off. They should also give Mr B a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

I uphold this complaint in part. Tesco Personal Finance PLC trading as Tesco Bank should settle the complaint in line with the instructions in the *"putting things right"* section above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 7 June 2024.

Gregory Sloanes
Ombudsman