

The complaint

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

What happened

Mr J was approved for two credit cards with Tesco as follows:

	<u>Date</u>	<u>Limit</u>
Card 1	26 Nov 2019	£3,200
Card 1 credit increase	21 Jul 2021	£6,200
Card 2	6 Jan 2022	£5,000

Mr J says Tesco should never have increased his limit, nor should it have approved a second card for him. He says he was only making minimum repayments on the card and had opened multiple credit accounts since opening the initial Tesco credit card. Mr J says the increased credit limit worsened his financial position as he was repaying the credit with other credit. He adds that the situation became unmanageable, and it affected him mentally.

Tesco says that when Mr J applied for the cards it asked him about his income and checked his credit file. It says that, in both cases, it found he was not over-indebted and had sufficient disposable income to afford the repayments. Tesco says Mr J requested the limit increase and further checks indicated the higher amount was sustainable for him.

Our investigator did not recommend the complaint should be upheld. She said that she wasn't satisfied that Tesco had carried out proportionate checks, but that she didn't think such checks would have revealed any concerns about affordability.

Mr J responded to say, in summary, that his first credit card was over the limit when Tesco approved the second card, and he was only able to pay more than the minimum repayments by utilising his overdraft. He says he did not have sufficient disposable income for further borrowing and his balance was only reduced by making a balance transfer to another credit card. Mr J adds that despite contacting Tesco about financial difficulties, and raising an affordability complaint, it has now offered to further increase his credit limit to £7,000.

Provisional findings

I issued a provisional decision to Mr J and Tesco on 2 April 2024 and my findings are below:

Card 1 Credit Limit Increase

When Mr J's limit was increased, I didn't consider Tesco had enough information on which to make a fair lending decision 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 hadn't seen any evidence that showed Tesco verified Mr J's income;
- Mr J already needed to commit at least 40% of his declared income to sustainably repay his existing credit balance – including his mortgage this rose to over 60%;
- Tesco used an estimate for Mr J's other living expenditure.

So, I considered Tesco should have found out more about Mr J's financial circumstances and, as such, I looked at Mr J's recent credit file and relevant bank statements and found:

- Mr J's income was at least £2,200 per month, including £350 from rental income;
- He was making a monthly mortgage payment of £350;
- Mr J's minimum payment on his Tesco card was £79, with roughly a further £670 needing to be committed to his other credit card repayments and a loan;
- Regular payments on items including utilities, council tax, television, mobile phone and insurance came to almost £500;
- Mr J spent around £200 on groceries and petrol each month.

This left Mr J with about £400 of disposable income each month and, although he was committing a third of his verified income to credit repayments, I found the credit limit increase was sustainably affordable for him.

Second Credit Card

When Mr J applied for his second credit card, Tesco carried out the same checks as before and, for the same reasons as above, I wasn't satisfied those checks were proportionate.

Again, I looked at Mr J's bank statements and found they still showed a positive disposable income. However, I considered it was irresponsible for Tesco to have approved the card as:

- Mr J's outstanding credit was on a clear upward trajectory;
- He was paying little more than the minimum in repayments;
- Mr J already had access to £6,750 of new credit since September 2021;
- If he fully utilised the new credit card limit, Mr J would be committed to paying almost 50% of his income on unsecured credit repayments.

So, I thought there were clear signs that Mr J was already struggling financially, and I found Tesco was irresponsible to have approved his second credit card application.

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 responded to say it accepted my provisional decision.

Mr J responded to say he did not have £400 of disposable income at the time of the limit increase. He clarified that the £350 rental income to which the provisional decision referred was actually a contribution from his partner towards household bills. However, as this was still a regular monthly income this does not affect the calculations of disposable income.

Mr J also added that Tesco has now sent him a balance transfer offer and increased his credit limit despite it being aware of his financial difficulties and this affordability complaint. He said this offer of additional credit is, in itself, irresponsible, given the circumstances.

Whilst I acknowledge what Mr J is saying about the balance transfer offer and new credit limit, these are new complaint points and need to be raised with Tesco in the first instance.

As neither party provided any additional information that affects my provisional decision, I see no reason to depart from it.

My final decision

My decision is that Tesco Personal Finance PLC (trading as Tesco Bank) should:

- Rework the second credit card account removing all applied interest and charges;
 - If the rework results in a credit balance, this should be refunded to Mr 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 Mr J's credit file.
 - Or, if after the rework there's still an outstanding balance, Tesco should arrange an affordable repayment plan with Mr J for the remainder. Once Mr J has cleared the balance, any adverse information should be removed from his credit file.

*HM Revenue & Customs requires Tesco to deduct tax from this interest. It must give Mr J a certificate showing how much tax has been taken off if he 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 Mr J to accept or reject my decision before 30 May 2024.

Amanda Williams

Ombudsman