

The complaint

Mr Z complains that Tesco Personal Finance Ltd (“Tesco”) lent to him irresponsibly when it gave him a credit card.

What happened

Mr Z took out a credit card with Tesco in April 2019. It had a credit limit of £2,400. The limit was never increased.

Mr Z says that Tesco loaned to him irresponsibly without checking his financial circumstances in enough detail.

Mr Z says that the lending caused him financial strain. He asks that Tesco refund all the interest and charges he incurred.

Our investigator thought Mr Z’s complaint should be upheld. Tesco disagreed, so the complaint was passed to me for a decision.

I reviewed the complaint and came to a different conclusion to our investigator. I wrote to both parties to explain my provisional findings and invited each party to make further representations or provide additional information.

Tesco said that it agreed with the provisional decision. Mr Z provided further information and evidence. I’ve considered that further material and do not consider it makes a difference to my 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.

We’ve set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I’ve taken that into account when I have considered Mr Z’s complaint.

Tesco had to take reasonable steps to ensure that it didn’t lend irresponsibly. In practice, this means that it should have carried out proportionate checks to make sure Mr Z could afford to repay what he was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and Mr Z’s income and expenditure.

Certain factors might point to the fact that Tesco should fairly and reasonably have done more to establish that – for example, if the results of the initial checks showed areas of concern. There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

Tesco has said that it completed credit checks before it lent to Mr Z which provided little reason for concern. It noted that Mr Z had no defaults, arrears, bankruptcies, County Court Judgments or debt management plans. Although Mr Z said he'd made some late payments, these didn't appear on the credit check Tesco completed. Tesco saw that Mr Z currently had total existing debt of around £2,374 consisting of £964 in loans and £1,410 in revolving credit.

Mr Z had declared a monthly income of £950 and said that he was a private tenant. and that he was single and living with his parents. Tesco completed an assessment of Mr Z's living expenses using Office of National Statistics data and estimated monthly living expenses, including payments on existing debt and the proposed credit card, at £690 a month. Based on this Tesco considered that Mr Z could affordably repay the lending, even if he borrowed the full amount.

I agree with our investigator that Tesco ought to have done further checks to understand Mr Z's financial circumstances better. I say this because if Mr Z used all of the credit Tesco offered he would have been borrowing around five times his monthly income. And he was on a relatively low income, so I think it would have been reasonable for Tesco to think more carefully about whether repayments would be sustainable.

I don't know what checks Tesco would have chosen to complete to obtain this better understanding – there is no prescriptive list of checks a business must do. In the absence of any other evidence, I think it's reasonable to consider the evidence provided by Mr Z in the form of his bank statements from the time.

Our investigator reviewed these statements and noted that Mr Z used his overdraft constantly and was never in a positive balance. Our investigator noted that overdrafts are designed for short-term lending. This is generally because they are an expensive way to borrow money.

When I reviewed the statements, though, I noted that Mr Z didn't pay any interest or charges for his overdraft. The overdraft facility was small - £500. This was because Mr Z was a student in higher education. I also noted deposits from third parties, which indicated Mr Z was not solely reliant on his income from his employment and I also noted transactions between another bank account belonging to Mr Z. There was also little evidence of payments for things like utility bills, suggesting that not all Mr Z's spending came from that account.

I asked Mr Z for further information about his circumstances. He explained that his earned income was supplemented by his student loan. He gave an explanation about why a third party paid, or helped pay, his rent and utilities. He explained that he had another bank account, but he wasn't able to supply statements from that account, so I couldn't tell what his full circumstances were like at the time. Since then, Mr Z has provided evidence that the transaction was a payment towards his existing credit card and not another bank account. However, I am satisfied this doesn't mean the lending wasn't affordable for him.

So, while I can see that Mr Z was using his overdraft, I have to also consider that it was small and did not cost him anything in fees or interest. His borrowing was entirely consistent with a student in higher education. He was receiving additional financial contributions from friends and family as many students do. On graduation it was likely he would have a period in which he was not expected to repay the overdraft and he would not need to pay back his student loan until he was receiving a much higher income. So, I don't think I can fairly rely on Mr Z's use of his overdraft as the reason to say Tesco shouldn't have lent to him.

On this basis, I can't fairly say that if Tesco had completed further checks that it would have seen anything which would have made it think Mr Z wouldn't be able to sustainably repay his credit card. So, I don't think Tesco acted unfairly or that Mr Z lost out as a result. This means I do not uphold Mr Z's complaint.

My final decision

While I understand this will be disappointing for Mr Z, for the reasons outlined above I do not uphold Mr Z's complaint. This means that I do not direct Tesco Personal Finance Plc, trading as Tesco Bank, to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr Z to accept or reject my decision before 2 July 2024.

Sally Allbeury
Ombudsman