

The complaint

Mr H complains that Tesco Personal Finance PLC, trading as Tesco Bank, irresponsibly provided him with a credit card account he couldn't afford.

What happened

In May 2021 Tesco opened a credit card account for Mr H. The credit limit was set at £6,800.

In 2024, Mr H complained to Tesco that it shouldn't have given him the account. He said if Tesco had completed appropriate affordability checks in 2021 it would have seen that the credit was unaffordable for him.

Tesco didn't uphold the complaint. It said it had carried out appropriate checks which showed Mr H could afford the credit limit as per its internal lending criteria.

Unhappy with Tesco's response, Mr H complained to this service. Our investigator recommended that Mr H's complaint should be upheld. They said the checks Tesco carried out weren't proportionate to the amount of credit being provided. The investigator was persuaded that the credit was likely to be unaffordable for Mr H, given his circumstances, and asked Tesco to put things right for him.

Tesco didn't agree with the investigator's findings. It accepted Mr H's financial situation in 2021 wasn't as 'seamless' as it appeared to be (in its words), but said Tesco legitimately wasn't aware of that at the time.

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 its lending decision, Tesco was required to ensure it carried out affordability checks. That's irrespective of whether, as Tesco argues, its internal 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.

From Mr H's application, Tesco was aware he was employed and had a gross annual income of £24,880 in 2021. I note that Tesco didn't hold any details of his expenditure in relation to things like housing or day-to-day living expenses but instead used information provided by a credit reference agency (CRA) and generic data to work out what these might

be. This indicated to it that Mr H had a seemingly healthy disposable income of around £530 a month.

Furthermore, the credit checks revealed no adverse credit history, such as recent defaults, county court judgements or arrears.

I agree with Tesco to the extent that the information it held didn't, in itself, suggest the new account would be unaffordable for Mr H. That said, the £6,800 of credit it was offering represented a significant amount of borrowing relative to his income. And Tesco held very little, if any, information about Mr H's levels of expenditure. While the generic information Tesco gathered might have given an indication of Mr H's situation, I think assessment of his actual outgoings was warranted in the circumstances.

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

That omission alone wouldn't be enough for me to fairly uphold Mr H's complaint. I'd also need to be persuaded that Mr H suffered a loss as a result of Tesco's failure to carry out adequate checks. It's difficult to know for sure what checks would have been undertaken, and what they'd have revealed. But I think it's reasonable to consider Mr H's current account statements from the time to help develop a picture of the state of his finances.

Had Tesco carried out further checks in 2021, it probably would have seen cause for concern since his statements show Mr H took out several loans in the months immediately before he approached Tesco. These totalled more than £18,000, which is a significant amount in relation to his stated income at the time.

Of even more concern is that the bank statements show significant gambling activity, to the extent that Mr H was spending on average more on gambling websites each month than he was earning. I'm not suggesting that Tesco was aware of this when it lent to him, but I'm persuaded this ought to have become apparent through proportionate checks.

Given all of this, I think Tesco ought to have become aware that providing Mr H with £6,800 worth of credit 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 2021, despite carrying out the checks that it did, and its lending criteria.

I've thought very carefully about everything Tesco's said – especially in response to the investigator's assessment. However, this doesn't change my mind and I'm satisfied that the outcome I've reached is fair in the circumstances.

I've also considered whether Tesco acted unfairly or unreasonably in any other way. That includes whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I've directed here results in fair compensation for Mr H in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right

Tesco should put things right for Mr H 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 H'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 H 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 H.

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 H 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 Personal Finance PLC, trading as Tesco Bank, to put things right for Mr H as explained above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 4 September 2024.

Nimish Patel
Ombudsman