

The complaint

Mr M complains that Tesco Personal Finance PLC trading as Tesco Bank acted irresponsibly by increasing the credit limit on his credit card.

What happened

Tesco Bank increased Mr M's credit limit on his credit card from £3,200 to £5,200 in December 2022. He says that at the time he was continuously transferring cash from his credit card to a bank account to fund his gambling addiction. He said he was constantly behind with his payments and his debts were increasing. Given this, he didn't think that Tesco Bank should have provided him with more credit.

Tesco Bank didn't uphold Mr M's complaint. It said that Mr M applied for a credit card which was supplied in January 2022 with a £3,200 credit limit. He then requested a credit limit increase and a new limit of £5,200 was agreed on 16 December 2022. It said that before the lending was provided it carried out credit and affordability checks to ensure the lending was affordable and the repayments sustainable. It said that checks were carried out before the credit increase was agreed and while Mr M's unsecured debt had increased, he wasn't considered to be over indebted. It said the credit limit increase was affordable.

Mr M referred his complaint to this service.

Our investigator upheld this complaint. He didn't think that Tesco Bank carried out proportionate checks before agreeing to the credit limit increase and noted the increase in Mr M's unsecured debt since the credit card had been provided. He found that had further checks taken place these would have raised concerns about the affordability of the additional credit. He said that this combined with concerns that Mr M might be becoming reliant on debt, meant he wasn't persuaded that Tesco Bank had made a fair lending decision.

Tesco Bank didn't agree with our investigator's view. It said that Mr M's income was verified with the credit reference agencies and the affordability assessment showed him to have disposable income of £300. It noted the comment about Mr M's increase in unsecured debt and that this could indicate a reliance on debt but said that Mr M repaid the account balance in full four months prior to the increase and his balance was then below £70 for two months. It said this contradicts the comment that Mr M was reliant on the debt. It said Mr M managed his account well and the affordability checks didn't raise concerns about the sustainability of the repayments.

As a resolution to this complaint hasn't been agreed, it has been passed to me, an ombudsman, to issue a 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.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

This complaint is about the increase in the credit limit applied to Mr M's credit card. Before the increase was agreed, Tesco Bank gathered information about Mr M's income and carried out a credit check. This showed Mr M having a monthly net income of around £1,400 which it said was verified with the credit reference agencies. The credit check didn't show any adverse data in regard to how Mr M was managing his credit commitments, but it did identify Mr M as having £11,751 of unsecured debt. This was a significant increase in Mr M's debt since he applied for the credit card in January 2022, (when unsecured debt was £434).

I note Tesco Bank's comment about Mr M clearing his credit card a few months prior to the credit limit increase and his use of the credit card in those months, but I can also see from his credit card statement that his use of the credit card increased in the months leading up to the limit increase. He also took out money transfers in September, October and early December and incurred a late payment fee in November 2022. I think this, combined with Mr M's increase in indebtedness, should have raised concerns that Mr M might be becoming reliant on the debt, and that it would have been reasonable to ask further questions to understand Mr M's financial circumstances before providing him with further credit.

I have looked through Mr M's credit report and bank statements from the time to understand what Tesco Bank would likely have identified had further questions been asked. Mr M's bank statements confirm his monthly net income as around £1,400. His credit report showed he had a mortgage. Mr M has said he shared the mortgage cost with his wife as well as paying towards fuel and car finance. Additional to this Mr M had other credit cards, a buy now pay later account and had taken out a loan for £5,020 in August 2022. Mr M was also paying for other general living costs. Taking all of this into account and noting the amount that would be required for sustainable repayments on a £5,200 credit limit, left Mr M with very limited disposable income. I think this should have raised concerns about the sustainability of the increase credit limit repayments.

Taking the above into account, and noting Mr M's increased indebtedness in the months preceding the limit increase and his use of the credit card for money transfers (including a £1,600 money transfer in early December 2022), I think this should have raised concerns that Mr M was becoming reliant on debt and that increasing his credit limit at that time wasn't responsible.

For the reasons set out above, I do not find that Tesco Bank should have increased Mr M's credit limit from £3,200 to £5,200 in December 2022 and so I am upholding this complaint.

Putting things right

- Tesco Bank should remove any interest and charges incurred as a result of the credit limit increase applied in December 2022. That means that Tesco Bank can only add interest accrued on the balance up to the credit limit of £3,200 this being the credit limit before December 2022.
- Tesco Bank should work out how much Mr M would have owed after the above adjustments. Any repayment Mr M made since December 2022 should be used to

reduce the adjusted balance.

- If this clears the adjusted balance any funds remaining should be refunded along with 8% simple interest* - calculated from the date of overpayment to the date of settlement.
- If after all adjustments have been made Mr M no longer owes any money, then all adverse information regarding this account should be removed from the credit file from December 2022.
- Or, if an outstanding balance remains, Tesco Bank should look to arrange an affordable payment plan with Mr M for the outstanding amount. Once Mr M has cleared the balance, then all adverse information regarding this account should be removed from the credit file from December 2022.

I have considered whether the business acted unfairly or unreasonably in any other way including whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Mr M 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.

*HM Revenue & Customs requires Tesco Bank to take off tax from this interest. Tesco Bank must give Mr M a certificate showing how much tax it's taken off if he asks for one.

My final decision

My final decision is that I uphold this complaint. Tesco Personal Finance PLC trading as Tesco Bank should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 14 October 2024.

Jane Archer
Ombudsman