

Complaint

Mr M has complained about credit cards Tesco Personal Finance Limited (trading as “Tesco Bank”) provided to him. He says that the credit cards and limit increase were unaffordable for him and they caused him ongoing financial difficulty and placed him in a relentless cycle of debt.

Background

Tesco Bank provided Mr M with a first credit card (“Card A”) which had an initial limit of £1,500.00 in October 2016. The credit limit was increased to £4,500.00 in September 2017.

Mr M successfully applied for a second credit card (“Card B”) which had a limit of £6,400.00 in November 2017. A number of limit decreases were applied on the account for Card B from June 2019 onwards.

In July 2023, Mr M complained saying that the credit cards and limit increases Tesco Bank provided to him were unaffordable and caused him continued financial difficulty as well as persistent debt going forward.

Tesco Bank did not uphold Mr M’s complaint. It thought that Mr M’s complaint about some of the issues (namely the initial decision to provide Card A) was made too late. In any event, it was satisfied that Mr M passed all of its checks when it agreed to offer both cards and the limit increase on Card A and so it was reasonable to lend.

One of our investigators reviewed what Mr M and Tesco Bank had told us. And he thought Tesco Bank hadn’t done anything wrong or treated Mr M unfairly in relation to providing the credit cards or increasing Mr M’s credit limit on the occasions that it did. So he didn’t recommend that Mr M’s complaint be upheld.

Mr M disagreed and asked for an ombudsman to look at the complaint.

My findings

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

Basis for my consideration of this complaint

There are time limits for referring a complaint to the Financial Ombudsman Service. Tesco Bank has argued that Mr M’s complaint about the initial decision to provide the card and the first credit limit increase was made too late because he complained more than six years after the decision to provide Card A; as well as more than three years after he ought reasonably to have been aware of his cause to make this complaint.

Our investigator explained why it was reasonable to interpret Mr M’s complaint as being one alleging that the relationship between him and Tesco Bank was unfair to him as described in

s140A of the Consumer Credit Act 1974 (“CCA”). He also explained why this complaint about an allegedly unfair lending relationship had been made in time.

Having carefully considered everything, I’ve decided not to uphold Mr M’s complaint. Given the reasons for this, I’m satisfied that whether Mr M’s complaint about the specific lending decisions was made in time or not has no impact on that outcome.

I’m also in agreement with the investigator that Mr M’s complaint should be considered more broadly than just the lending decisions. I consider this to be the case as Mr M has not only complained not about the respective decisions to lend but has also alleged that this unfairly impacted upon his financial position moving forward.

I’m therefore satisfied that Mr M’s complaint can therefore reasonably be interpreted as a complaint about the overall fairness of the lending relationship between him and Tesco Bank. I acknowledge the possibility that Tesco Bank may not agree that we can look at Mr M’s complaint about the initial decision to provide him with Card A, but given the outcome I have reached, I do not consider it necessary for me to make any further comment, or reach any findings on these matters.

In deciding what is fair and reasonable in all the circumstances of Mr M’s case, I am required to take relevant law into account. As, for the reasons I’ve explained above, I’m satisfied that Mr M’s complaint can be reasonably interpreted as being about the fairness of the lending relationship between him and Tesco Bank, relevant law in this case includes s140A, s140B and s140C of the CCA.

S140A says that a court may make an order under s140B if it determines that the relationship between the creditor (Tesco Bank) and the debtor (Mr M), arising out of a credit agreement is unfair to the debtor because of one or more of the following, having regard to all matters it thinks relevant:

- any of the terms of the agreement;
- the way in which the creditor has exercised or enforced any of his rights under the agreement;
- any other thing done or not done by or on behalf of the creditor.

Case law shows that a court assesses whether a relationship is unfair at the date of the hearing, or if the credit relationship ended before then, at the date it ended. That assessment has to be performed having regard to the whole history of the relationship. S140B sets out the types of orders a court can make where a credit relationship is found to be unfair – these are wide powers, including reducing the amount owed or requiring a refund, or to do or not do any particular thing.

Given Mr M’s complaint, I therefore need to think about whether Tesco Bank’s decision to initially lend to Mr M, increase his credit limit, or its later actions resulted in the lending relationship between Mr M and Tesco Bank being unfair to Mr M, such that it ought to have acted to put right the unfairness – and if so whether it did enough to remove that unfairness.

Mr M’s relationship with Tesco Bank is therefore likely to be unfair if it didn’t carry out reasonable and proportionate checks into Mr M’s ability to make his repayments in circumstances where doing so would have revealed the credit card or the limit increases to be unaffordable, or that it was irresponsible to lend. And if this was the case, Tesco Bank then didn’t somehow then remove the unfairness this created.

I’ve considered Mr M’s complaint in this context.

Did Tesco Bank act fairly and reasonably when providing the credit cards and credit limit increase on Card A?

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr M's complaint.

Tesco Bank needed to make sure it didn't lend irresponsibly. In practice, what this means is Tesco Bank needed to carry out proportionate checks to be able to understand whether Mr M could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower's income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we'd expect a lender to be able to show that it didn't continue to lend to a customer irresponsibly.

Tesco Bank says it agreed to Mr M's applications and the credit limit increases after it carried out a credit search. And the information obtained indicated that Mr M would be able to make the monthly repayments that could be due on these credit cards.

On the other hand, Mr M says that credit cards and the limit increase were unaffordable and that they caused him ongoing financial difficulty as a result.

I've considered what the parties have said.

Tesco Bank's initial decision to offer Mr M Card A with a credit limit of £1,500.00

What's important to note is that Mr M was provided with a revolving credit facility rather than a loan. And this means that to begin with Tesco Bank was required to understand whether a credit limit of £1,500.00 could be repaid within a reasonable period of time, rather than in one go. It's fair to say that a credit limit of £1,500.00 required not insignificant monthly payments in order to clear the full amount that could be owed within a reasonable period of time.

Tesco Bank has been able to show that it did carry out a credit search on Mr M at the time of his application. I understand that this credit search showed that Mr M had no significant adverse information – such as defaulted accounts or county court judgments ("CCJ") - recorded against him. Furthermore, Mr M had no secured lending and had active unsecured balances of just under £3,000.00 which were made up of a credit card and a loan.

Tesco Bank says that Mr M declared a salary of £26,000.00 a year at this point and this combined with the credit file information meant that it was reasonable to conclude that Mr M could afford this credit card.

Having considered all of this, I'm satisfied that the information obtained did indicate that Mr M could make the repayments to clear a balance of £1,500.00 within a reasonable period of time.

As this is the case, I'm satisfied that it was not unfair for Tesco Bank to offer Mr M Card A with a limit of £1,500.00 and therefore there was no unfairness created at this stage.

The decisions to increase the limit on Card A to £4,500.00 and then provide Card B to Mr M

As I've explained in the background section of this decision, Tesco Bank increased Mr M's credit limit to £4,500.00 in September 2017 before it agreed to provide Card B, with a credit limit of £6,400.00 in November 2018.

Bearing in mind the extra being granted at the time of the limit increases and the fact that Mr M could be left with having to repay £4,500.00 and then £10,900.00 (bearing in mind that's the total he could owe to Tesco Bank when provided with Card B) within a reasonable period of time, I do think that it would have been reasonable and proportionate for Tesco Bank to have found out a bit more about Mr M's regular non-discretionary living costs before agreeing to this extra credit.

As I can't see that this was something that Tesco Bank did do, I don't think that it carried out reasonable and proportionate checks before providing the limit increases to Mr M.

That said, having looked at copies of the current account statements Mr M has provided, I'm not persuaded that Mr M's regular non-discretionary living costs were higher than what Tesco Bank believed at the time of his application. Furthermore, it's also fair to say that Mr M had said that his income had increased by the time that he'd been provided with Card B too.

So I don't think that Tesco Bank requesting further information about Mr M's actual living costs, would have shown it that it shouldn't have agreed to increase Mr M's limit on Card A to £4,500.00, or provide Card B to him either.

In reaching my conclusions, I've noted that Mr M's borrowing had increased in the period between him being provided with Card A and Card B. For example, while Mr M owed less than £3,000.00 at the time he applied for Card A the credit search at the time he applied for Card B showed that he now owed just under £10,000.00. However, having reviewed a copy of Mr M's agreement for Card B, I can see that this new card had a 0% balance transfer offer which meant that Mr M wouldn't pay any interest on any transferred balances for 32 months.

This would have allowed Mr M to have transferred his non-Tesco Bank credit card balances to the new card and repay it on better terms. In other words, he'd be able to repay a debt that had already been accrued and was due to incur interest if it hadn't been transferred, on an interest free basis.

As this is the case, Mr M would have been able to repay what he already owed much more quickly as a result of being provided with Card B. So I can't reasonably say that Card B was provided in circumstances where Tesco Bank ought reasonably to have realised that it was increasing Mr M's overall indebtedness in a way that was unsustainable or otherwise harmful either.

Overall, and based on the available evidence I don't find that Mr M's relationship with Tesco Bank was unfair. I've not been persuaded that Tesco Bank created unfairness in its relationship with Mr M by irresponsibly lending to him whether when initially agreeing to provide him with either credit card, or in respect of the credit limit increase on Card A. I don't find Tesco Bank treated Mr M unfairly in any other way either based on what I've seen.

So overall and having considered everything, while I can understand Mr M's sentiments and appreciate why he is unhappy, I'm nonetheless not upholding this complaint. I appreciate this will be very disappointing for Mr M. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mr M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 7 April 2025.

Jeshen Narayanan
Ombudsman