DRN-5484762

The complaint

Miss M complains Barclays Bank UK PLC trading as Tesco Bank (Tesco) failed to undertake sufficient financial checks before it approved a credit card account for her.

What happened

Miss M says Tesco approved a credit card account for her in June 2020, with an initial credit limit of £250 and it steadily increased the credit card limit on seven occasions, between then and April 2023, with a final limit approved of £2,300.

Miss M says she had a previous history of late payments and excesses and Tesco should have seen that the credit card borrowing was unsustainable, but it failed to carry out sufficient financial checks before the initial borrowing and the subsequent credit limit increases were approved.

Miss M wants Tesco to refund all interest and charges to her credit card account along with 8% statutory interest and remove any adverse entries on her credit file relating to this account.

Tesco says it is a responsible lender and Miss M applied for a “foundation” credit card in June 2020. Tesco explained this type of card is for customers with a less than perfect credit history and a low or no credit score, with the view to improve their credit standing over time, starting with a modest credit limit.

Tesco says when the initial credit card was approved with a £250 credit limit in June 2020, it relied upon details from Miss M’s application showing a declared net monthly income (NMI) of around £1,100, information from the credit reference agencies (CRA’s) and its own internal affordability modelling. Tesco says it was aware of a CCJ recorded at that time but this dated back over 20 months without further issues, and the foundation card was designed for this type of credit background.

Tesco says on each occasion the credit limit was increased between June 2020 and April 2023; it conducted an affordability assessment using information from the CRA’s and its own affordability calculations.

Tesco says during this time while external borrowing had increased Miss M had a strong level of net disposable income (NDI) and there was no record of any new defaults beyond 30 months, IVA’s, Bankruptcies, or arrears being reported. Additionally, Tesco says Miss M had demonstrated she was managing her existing lines of credit well, making either the minimum payment or higher each month.

Tesco feels it carried out reasonable financial checks before any credit was provided to Miss M.

Miss M wasn’t happy with Tesco’s response and referred the matter to this service.

The investigator looked at all the available information but didn’t uphold the complaint.

The investigator says there are no set list of checks a lender must undertake but these must be borrower focused taking into account the amount, type and term of the borrowing to ensure the sustainability of repayment.

The investigator felt when the initial modest credit limit of £250 was approved, Tesco had carried out reasonable and proportionate checks confirming Miss M's gross annual income at £14,000, with no adverse markers within the previous 31 months and she had shown she was managing her existing credit well.

The investigator says that on each occasion the credit limit was increased between September 2020 and April 2023, Tesco had carried out affordability checks from CRA data. The investigator says while external debt had increased over this time, the data Tesco relied upon showed an increasing NMI, a strong net disposable income and any defaults or CCJ's were historic. The investigator says Tesco's showed that there were no missed payments on her account with them during this time and the minimum payment or more, was being made each month.

With that in mind the investigator felt the checks Tesco undertook were reasonable and proportionate and the borrowing looked affordable.

Miss M didn't agree with the investigator's view and asked for the matter to be referred to an ombudsman for a final 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.

Having done so, I won't be upholding this complaint and I will explain how I have come to my decision.

I was sorry to learn that Miss M is experiencing financial difficulties and that must be a source of worry to her.

When looking at this complaint I will consider if Tesco acted irresponsibly when it approved a credit card facility to Miss M and subsequently increased the credit limits on that account.

Miss M feels Tesco failed to carry out proportionate checks at the time the credit card facility was approved in June 2020, and when the credit limits were increased over the following three years or so. While I understand the points Miss M makes here, I'm not fully persuaded by her argument and I will go on to explain why.

The first thing to say here is there are no set rules of what checks banks like Tesco must undertake when looking to provide credit to its customers, nor is it for me to say what sources it must use to carry out such checks. But I would expect these to be customer focused, proportionate and take into account the sustainability and affordability of such a commitment.

It's also worth mentioning that Miss M initially applied for a "foundation" credit card with Tesco back in June 2020. This type of card is typically provided to consumers with perhaps a less than perfect credit score and is what can be described as a "low and grow" facility.

This means Tesco provided Miss M with an initial modest credit facility and looked to increase the facility over time, having seen the account managed within the terms of the agreement and therefore help consumers like Miss M to build their credit standing.

Here, I can see Tesco considered at the time of her credit application in June 2020 the fact that Miss M had a previous CCJ registered approaching two years earlier, but that in itself wouldn't be a reason not to offer a modest credit limit on this type of credit card, as that is what after all it is designed for.

From the information available, I can see at that time Tesco carried out an affordability assessment using details contained within Miss M's credit card application showing her net monthly income and data from CRA's to establish affordability. I can also see that from the data Tesco used, this showed a strong NDI following its affordability modelling and no recent defaults, CCJ's recorded or any evidence of recent financial pressure - with low levels of external debt.

So, with that in mind I'm satisfied the checks Tesco undertook to determine the affordability of the £250 modest credit limit, were reasonable and proportionate here.

As far as the various credit limit increases are concerned over the period between June 2020 and April 2023 ranging between £500 and £2,300, Tesco on each occasion carried out various affordability checks using CRA data and its own internal affordability modelling.

From the information I have seen, this data showed an improving net monthly income and suggested Miss M's NDI remained fairly strong over this period, meaning despite increasing external debt, the borrowing approved seemed affordable.

It's worth saying here that I wouldn't expect for Tesco to undertake the same level of intensive due diligence one might expect to see for say a large committed long term loan.

What I can see is that Tesco's affordability modelling, based on internal and external data did take into account Miss M's changing financial circumstances, for example the increased external debt she had taken on over this time and the changes in both her income and expenditure.

Additionally, there is no evidence I can see that shows Miss M was under any obvious financial pressure in meeting her existing commitments and her credit card account over the three years with Tesco had been maintained well prior to any of the credit limit increases.

So, with that in mind I am satisfied Tesco carried out reasonable and proportionate checks before any of the limit increases were approved.

I've also considered whether Tesco acted unfairly or unreasonably in some other way given what Miss M has complained about, including whether its relationship with her might have been unfair under s.140A Consumer Credit Act 1974.

However, for the same reasons I have set out above, I've not seen anything that makes me think this was likely to have been the case.

My final decision

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 18 August 2025.

Barry White

Ombudsman