

The complaint

Mr R has complained that Tesco Personal Finance PLC, trading as Tesco Bank, irresponsibly lent to him.

What happened

Mr R opened a credit card account with Tesco Bank July 2015. His credit limit was £2,100. In July 2018 Tesco Bank increased Mr R's credit limit to £4,100. And in August 2021, at Mr R's request, Tesco Bank increased Mr R's credit limit for a final time to £5,100.

Mr R says that Tesco Bank acted irresponsibly by providing him with the credit limit increases from July 2018. He says he had struggled with repayments on the card and was always close to his limit and only paid the minimum amount. He asks that Tesco Bank put him back in the position he would have been in if Tesco Bank hadn't given him the credit limit increases by refunding the interest and charges he paid as a result of the credit limit increases.

Tesco Bank says it didn't lend irresponsibly to Mr R and that it did all the necessary checks before it lent to Mr R.

Our investigator first thought that Mr R's complaint shouldn't be upheld. They thought that Tesco Bank had conducted sufficient checks and acted appropriately on the results of those checks. However, Mr R provided more information after our investigator's view which changed our investigator's mind. Our investigator wrote to both parties and explained that they thought the decisions to increase Mr R's credit limit were not fair.

Tesco Bank disagreed. It said it had done sufficient checks and there were no indications of any financial strain.

As Tesco Bank disagreed the case has been passed to me to make 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.

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 R's complaint. Having done so, I agree with our adjudicator's view.

Tesco Bank needed 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 R 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 R's income and expenditure.

Certain factors might point to the fact that Tesco Bank should fairly and reasonably have done more to establish that any lending was sustainable for Mr R. These factors include things like understanding the total amount Mr R borrowed, the length of time Mr R had been indebted and how much disposable income he had.

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

Mr R hasn't complained about the opening of his account, so I have concentrated on what happened when his credit limit was increased, first in July 2018 and then in August 2021.

Tesco has provided evidence of the checks it completed when it increased Mr R's limit. It noted that Mr R appeared to be managing his finances well. He had no adverse data in relation to his wider financial circumstances as he had no arrears or defaults and no County Court Judgments. Mr R wasn't over his limit on his Tesco Bank credit card and he hadn't missed any payments in the preceding six months. Mr R appeared relatively lowly indebted, with a total outstanding debt of £6,651. Tesco Bank wasn't initially able to provide evidence of Mr R's income at the exact time of the credit limit increase, but three months earlier, in April 2018, credit bureau data indicated it was £1,024 a month. Tesco Bank later updated this to £1,485 in May 2018 and £2,153 in June 2018.

On this basis it decided that the £2,000 increase was affordable. Indeed, it concluded that Mr R could afford up to a further £5,000, although it did not provide him with all of this. Tesco Bank described the £2,000 increase as modest by comparison. Tesco Bank says to have done further checks, such as to verify Mr R's income and expenditure, would have been disproportionate.

If Mr R had used his full limit of £4,100 he'd have had to pay around £200 a month to sustainably repay the credit card borrowing over a reasonable period. And Mr R had other unsecured borrowing. He had a loan from Tesco Bank which he'd taken out in January 2018, the repayments for which, it seems from Mr R's evidence, were about £435 a month. Mr R also had an overdraft, which at the time of the credit limit increase was over £2,000. He was paying daily fees on this borrowing, too. Again, to repay the overdraft over a reasonable period I think Mr R needed to be able to decrease his overdraft by at least £100 each month. On this basis, Mr R's existing sustainable repayments towards his unsecured debt were around £735 a month.

Mr R appeared to have a widely varying income – it differed by more than 100% over the three months prior to the credit limit increase. In April, Tesco Bank's bureau data indicated it was £1,024. In May it was £1,485 and in June 2018 it was £2,153. On the basis of Mr R's April income his repayments would have accounted for around 70% of his monthly income. In May it would have accounted for around 50%. In June 2018 – the month before the credit limit increase, it would have accounted for only around 30% of his income. Tesco Bank says its assessments indicated that Mr R had a net disposable income of around £660 a month once payments towards all his unsecured debt and all his living expenses were taken into account.

I think the variability of Mr R's income ought to have caused Tesco Bank to do more checks. I think it would have been reasonable and proportionate for Tesco Bank to seek to verify Mr R's income and expenditure. Tesco Bank suggests this was disproportionate, but I disagree. It was increasing Mr R's borrowing on the credit card by nearly 100%, so I don't think it was unreasonable to expect Tesco Bank to act on obvious anomalies such as his income when it had that information.

I don't know exactly how Tesco Bank would have chosen to do this. There is no prescriptive list of checks when it comes to lending. However, in the absence of any other evidence I think it's fair to rely on the evidence Mr R has provided this service in the form of his bank statements and information about the benefits he received and his tax records.

In April 2018, when Tesco identified Mr R had an income of £1,024, Mr R's bank statements show a different picture. His income was around £350, which only covered his rent. It didn't cover any of his other essential expenses, which I have calculated to be around £200. His repayments for credit were around a further £550, leaving Mr R with a shortfall over the month of around £750.

In May 2018 Mr R's essential expenditure on things like rent, utility bills, food and motoring expenses came to around £730. Adding in his overdraft fees, loan repayment and credit card repayment he spent a further £555. I identified an income from wages of £897.85, although there are other unidentified transfers in from other accounts and from Mr R's business account of around £1,145 making a total of around £2,045. On this basis Mr R had a disposable income of around £700 that month.

In June 2018 Mr R's income from his employer was around £1,190 although I again identified a further £700 from an additional unidentified deposit. His outgoings were lower at only £415 – there was no rent payment that month. This left him with a disposable income of around £910 a month.

So, over the course of the three months leading up to the credit limit increase Mr R averaged a disposable income of £290 a month. However, he was making only minimum repayments on his credit card each month. If he had been repaying it at a sustainable rate of 5% of his balance each month his disposable income would have been closer to £240 a month. Further potential borrowing of up to £2,000 extra, which if he utilised it all would have resulted in a need to pay an additional £100 a month, would leave Mr R with disposable income of around £140 a month. I don't think this was sufficient for Mr R to be able to manage any unexpected expenditure, especially given the variability of his income. On this basis, I do not think Tesco ought to have provided Mr R with more credit.

I have looked to see whether Mr R's circumstances improved at the time of his later credit limit increase in August 2021. Mr R has provided evidence that he was reliant on Universal Credit. He had been in receipt of Self-Employment Income Support Scheme (SEISS) grants, which were introduced to support self-employed people during the Covid pandemic. Mr R has provided evidence that he was in debt to HMRC and was being fined for non-payment of tax. I'm satisfied that Mr R's financial position was worse in 2021 than it was in 2018, which means that I think if Tesco had completed necessary and proportionate checks at that time it would have concluded Mr R could not afford the additional credit.

So, on balance, on the information available to me, I don't think Tesco Bank completed necessary and proportionate checks. If it had done so, I think it would have understood that the borrowing was unaffordable for Mr R. I think Mr R lost out as a result of what Tesco Bank did wrong.

Putting things right

As I don't think Tesco Bank ought to have provided the credit limit increases in 2018 or 2021, I don't think it's fair for it to be able to charge any interest or charges on balances above £2,100. But I think Mr M should pay back the amount he has borrowed. Therefore, Tesco Bank should:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied on balances above £2,100.
- If the rework results in a credit balance, this should be refunded to Mr R along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Tesco Bank should also remove all adverse information regarding this account from Mr R's credit file.
- Or, if after the rework there is still an outstanding balance, Tesco Bank should arrange an affordable repayment plan with Mr R for the remaining amount. Once Mr R has cleared the balance, any adverse information in relation to the account should be removed from his credit file.

*HM Revenue & Customs requires Tesco Bank to deduct tax from any award of interest. It must give Mr R a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

My final decision

I uphold Mr R's complaint about unaffordable lending and direct Tesco Bank plc to pay compensation as described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 13 September 2023.

Sally Allbeury
Ombudsman