

The complaint

Mr G complains that Tesco Personal Finance Ltd (“Tesco”) lent to him irresponsibly when it gave him two credit cards.

What happened

Mr G took out a credit card with Tesco in February 2018. It had a credit limit of £250. The limit was increased by £350 on one occasion in December 2018. His final credit limit was £600.

Between opening the first card and the credit limit increase on the first card, Mr G took out another credit card with Tesco in September 2018. This had a credit limit of £2,400. Mr G says that Tesco loaned to him irresponsibly without checking his financial circumstances in enough detail. He says that it ignored important aspects. He says in relation to the second card that Tesco didn’t take into account that he had managed the first card poorly and had high existing credit commitments. Mr G says Tesco overlooked important information from both its internal and external sources.

Mr G says that the lending caused him financial difficulty. He asks that Tesco refund all the interest and charges he incurred and pay him statutory interest on any positive balance as a result of the refund.

Our investigator thought Mr G’s complaint should be upheld in part. Our investigator thought Tesco shouldn’t have provided the second card at all and that it shouldn’t have increased Mr G’s credit limit on the first card.

Tesco disagreed, so the complaint was passed to me for a decision. When I reviewed the complaint I didn’t think it should be upheld, even in part.

I wrote to both parties to explain my provisional decision. Mr G disagreed with my decision and provided further submissions to support his complaint. Having reviewed those submissions I am still not satisfied that Tesco acted unfairly. I have explained this further below.

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 G’s complaint.

Having done so, I'm considering reaching a different decision to that of our investigator. I will explain why I have reached this provisional decision.

Tesco had 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 G 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 G's income and expenditure.

Certain factors might point to the fact that Tesco should fairly and reasonably have done more to establish that – for example, if the results of the initial checks showed areas of concern. There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

Tesco has said that it completed credit checks before it lent to Mr G which provided little reason for concern. It noted that Mr G had no bankruptcies or debt management plans, but it did identify a County Court Judgement (CCJ) from 34 months earlier. It noted that Mr G had defaulted on an account 39 months earlier – this may have been the same account which resulted in the CCJ. It saw that Mr G currently had total existing debt of around £1,530. Mr G had declared a monthly income of £1,623 and that he was single and living with his parents. Tesco completed an assessment of Mr G's living expenses using Office of National Statistics data and estimated monthly living expenses, including payments on the proposed credit card, at £586 a month. Based on this Tesco considered that Mr G could affordably repay the lending.

I've thought carefully about whether Tesco ought to have completed further checks in light of the information it had about Mr G's prior financial difficulties. On balance, I don't think it did. The product Mr G was applying for was aimed specifically at those with a poor credit record. Mr G's most recent default was over three years earlier and he had low existing borrowing. Taking into account his income and assessed essential expenditure I don't think Tesco ought reasonably to have thought Mr G couldn't afford the repayments on £250 of credit or that it needed to do further checks.

The next lending decision was made when Mr G applied for a further credit card account in September 2018. The limit it provided was £2,400 – making his total borrowing available from Tesco £2,650.

At this point, our investigator thought that Tesco ought to have done more to find out about Mr G's financial circumstances. And our investigator thought if Tesco had done further checks it would have realised that Mr G couldn't afford the new lending, because Mr G wasn't left with much money each month after he'd paid all his commitments. Tesco, which didn't have sight of the bank statements, disagreed. It said that its own checks showed that even while making sustainable repayments on all of his credit, Mr G had sufficient disposable income available to him.

I agree with our investigator that Tesco ought to have done further checks. While Mr G's outstanding credit commitments elsewhere had reduced and was now only £300, I think the significant increase in lending, only about seven months after he took out a credit card specifically for those with a poor financial history, combined with the credit already available to him compared to his monthly income, that Tesco ought to have completed further checks on Mr G's income and expenditure.

I don't know exactly what checks Tesco would have done; there is no prescriptive list of checks. So, I think it is reasonable to look at the information Mr G provided to this service, including his bank statements and credit file, as well as the information Tesco already had.

Having reviewed this information, I think Mr G had sufficient disposable income each month after he met his essential expenditure (for example, his rent, utilities and food bills) to meet his credit commitments, including the new lending.

With the new credit, Mr G had access to around £8,100 of credit. If Mr G had used all of this credit (which he hadn't) then sustainable repayments on this would have been around £400 a month. His average essential expenditure each month was around £685 a month. I can see that in the months leading up to the second card opening Mr G was paying significantly more than his minimum repayments on his other credit – at its highest he paid around a month's salary to credit card debt. But this meant that his outstanding balances were commensurately low.

While Mr G's bank statements show that he didn't have *much* money left at the end of the month, this didn't result in him struggling to meet his repayments, or to sustainably make his repayments. I am satisfied that once Mr G met all his essential expenditure, including sustainable repayments on the entirety of his credit if he had chosen to utilise it, Mr G would have had disposable income in the region of around £230 to £300 a month. Although Mr G's bank statements show that at times he had less than this in his bank account at the end of each month, that is because he had discretionary expenditure, too. On that basis, I don't think Tesco made an unfair decision to lend to Mr G.

Mr G says that Tesco ought to have noted that he wasn't managing his credit well on the first credit card when Tesco agreed to the second credit card. I note that Mr G had one overlimit fee during that time, but he had paid more than the minimum payment each month, including a large amount in July 2018. By the time of his application in September 2018 he had only £23 owing on the card. So I don't think that ought to have prevented Tesco from lending to Mr G.

As I haven't upheld Mr G's complaint at the point our investigator did, I've gone on to look at the credit limit increase on the first card which took place in December 2018. This was for a further £350.

Looking at the same types of data sets I can see that nothing had changed significantly for the worse. Mr G had taken out other credit, but he had a relatively low outstanding balance – around £1,900. He hadn't missed any payments and he was managing all of his credit well. Extra checks would have shown that his income and essential expenditure was similar to that seen in the September 2018 checks. Looking at Mr G's credit file, I can see he was making payments towards his borrowing at a level which was higher than he needed to, to sustainably repay the lending.

On this basis, I don't think Tesco acted unfairly when it increased Mr G's credit limit in December 2018 and I don't think Mr G lost out as a result.

Mr G has explained that he has had previous complaints about unaffordable lending upheld by this service. This service treats every complaint on its individual merits and examines the individual circumstances of each complaint. I can see that the complaints Mr G refers to were about products provided when his financial circumstances were significantly different. In his later submissions, Mr G explains that he had not been honest in relation to his income declarations when he applied for the credit which is the subject of those other complaints. He questions how those businesses checked his details fully and yet still lent to him.

Mr G also makes a number of other points, including (but not only) explaining that his employment wasn't permanent at the time of his application and that Tesco shouldn't have allowed him to have a 'credit builder' credit card as he was not new to credit use. He

maintains that any additional credit was too much for him at the time. He points to the fact he used close to the full limit on the first card almost immediately as evidence that Tesco acted irresponsibly and also that Tesco should have seen that he was already stretching himself financially.

I appreciate Mr G taking the time to set out his points again so clearly. However, I do not consider that he has made any new points which I have not already considered in my provisional decision. I have already explained why, even if Tesco had completed further checks, I don't think it would have acted differently. I am considering only the merits of this complaint and I am satisfied that in the circumstances of this complaint, Tesco did not act unfairly in lending to Mr G for the reasons I have set out.

My final decision

I do not think Tesco Personal Finance plc acted unfairly when it lent to Mr G, so I do not uphold his complaint. This means that Tesco Personal Finance plc does not have to do anything further.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr G to accept or reject my decision before 18 January 2024.

Sally Allbeury
Ombudsman