

Complaint

Mr D has complained about a credit card Tesco Personal Finance PLC (trading as “Tesco Bank”) provided to him.

He says the credit card was irresponsibly provided before its credit limit was increased as it should have been clear from his credit file that any lending was inappropriate.

Background

Tesco Bank provided Mr D with a credit card with an initial limit of £250 in October 2021. The credit limit on Mr D’s account was increased to £600 in April 2022.

One of our investigators reviewed what Mr D and Tesco Bank had told us. And he thought Tesco Bank hadn’t done anything wrong or treated Mr D unfairly in relation to providing the credit card.

So he didn’t recommend that Mr D’s complaint be upheld. Mr D 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.

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 D’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 D 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 D’s initial application and then increased his credit limit after it obtained information on his income and carried out a credit search. And the information obtained indicated that Mr D would be able to make the low initial, as well as the increased, monthly repayment due on this credit card. On the other hand Mr D says that he had a poor credit file and shouldn’t have been lent to under any circumstances.

I've considered what the parties have said.

What's important to note is that Mr D was provided with a revolving credit facility rather than a loan. And this means that Tesco Bank was initially required to understand whether a credit limit of £250 could be repaid within a reasonable period of time, rather than in one go. A credit limit of £250 required small monthly payments in order to clear the full amount owed within a reasonable period of time.

I've also seen records of the information Tesco Bank obtained from Mr D about his income and what was on the credit search carried out. This information doesn't indicate to me that Tesco Bank ought to have realised that Mr D didn't have the funds to make the low monthly payment that would be required for this credit card.

Mr D says that he had previous repayment difficulties – in the form of defaults and a County Court Judgment recorded against him - at the time of his application and when he was offered the increase. I accept that this is the case. But I don't think that these issues in themselves meant that Mr D shouldn't have been lent to. In my view, what this meant that was that Tesco Bank needed to take more caution which it did do by offering a very low initial limit.

Furthermore by April 2022, Mr D was already showing indications of having the funds to make the payments to an increased credit limit. For example, he'd made repayments of over £100 in April 2022. This not only reduced what he owed to less than half of his existing limit but payments of this amount suggested that he may have had well in excess of what he'd need to pay to repay £600 within a reasonable period of time.

Given the low amount being lent here and the credit searches Tesco Bank carried out not showing that Mr D shouldn't be lent to in any circumstances in the way he suggests, I don't think that Tesco Bank needed to further verify what was in the information it had before lending. I do accept that Mr D says that his actual circumstances at the time were worse than what the information Tesco Bank obtained showed. I'm sorry that to hear that Mr D has struggled to make his payments.

That said, Tesco Bank would not know this might have happened when making its lending decision. There wasn't anything to indicate this in the information provided at the of the initial application and Mr D didn't have an increased amount of adverse information by the time of the limit increase either, to suggest that Mr D couldn't repay this credit card.

Equally, there wasn't anything immediately obvious in the information that Tesco Bank had, including Mr D's existing indebtedness bearing in mind his declared income, which meant it should've asked Mr D to provide supporting evidence, particularly given the payments he made in the period between October 2021 and April 2022. I'm also mindful that given Mr D was only ever provided with the ability to spend £600. So it's unlikely that Tesco Bank ought to have realised that there was a risk it might have been increasing Mr D's unsustainably either.

Overall while I can understand Mr D's sentiments and I'm sorry to hear about his situation, I don't think that Tesco Bank treated Mr D unfairly or unreasonably when providing him with his credit card, or increasing his credit limit. It carried out proportionate checks before providing him with his card and increasing his credit limit and reasonably relied on the information provided which suggested that the facility was affordable for Mr D.

Consequently I'm not upholding Mr D's complaint. I appreciate this will be very disappointing for Mr D. 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 D's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 28 December 2023.

Jeshen Narayanan
Ombudsman