

The complaint

Ms T complains that Tesco Personal Finance PLC trading as Tesco Bank was irresponsible in its lending to her.

What happened

Ms T applied for a Tesco Bank credit card in October 2021. Her application was approved, and she was provided with a credit limit of £5,100.

Ms T says that Tesco Bank didn't carry out adequate checks before the credit was provided and she was only asked about how much she paid towards her mortgage. Ms T says she is self-employed and so her income fluctuated and that given her outgoings the lending was unaffordable.

Tesco Bank issued a final response letter dated 25 January 2023. It said that when Ms T applied for a credit card it checked the information on her application with other sources and carried out a credit check. It said that following its review of Ms T's application and credit report it was happy to move ahead with her application. It said that Ms T signed the agreement and that the charges and fees had been applied in line with the terms and conditions of Ms T's account.

Ms T wasn't satisfied with Tesco Bank's response and referred her complaint to this service.

Our investigator upheld this complaint. He thought that Tesco Bank had carried out proportionate checks before Ms T's account was opened but said that the information gathered through these checks should have raised concerns. He noted that Ms T's credit file showed she owed £16,581 to other creditors and sustainable repayments towards these debts would have taken a significant portion of her income. He said the additional credit provided by Tesco Bank resulted in Ms T's overall debt being higher than her yearly income. Given this he didn't think the lending should have been provided.

Tesco Bank didn't agree with our investigator's view. It said Ms T had a clean credit history with no signs that she was struggling to manage her financial commitments. It said that Ms T had a monthly net income of £1,500 and from the data it received from the credit reference agencies she was paying £361 towards her loan balances and £121 towards her mortgage. It then used industry standards to estimate her other costs. It said taking into account Ms T's repayments towards her revolving debt would still have shown the credit card with a limit of £5,100 to be affordable. It said that debt to income ratio was measured on a customer's existing unsecured debt against their monthly income and that Ms T's was within its tolerance. It also noted that Ms T completed a £3,000 balance transfer at 0% which would have potentially reduced her monthly outgoings.

My provisional conclusions

I issued a provisional decision on this complaint because, while I agreed with our investigator that the complaint should be upheld, I reached this decision based on different reasoning.

The details of my provisional decision are set out below.

Tesco Bank gathered information through its application and carried out a credit check before providing the credit card to Ms T. The credit check didn't raise any concerns that Ms T was struggling to manage her financial commitments (no defaults, judgements or other adverse data was recorded). But it did show that she had other loans and revolving credit outstanding. Ms T was recorded as self-employed, and her income noted as £17,000 annually resulting in a monthly net income of £1,500. Ms T's monthly loan repayments were recorded as £361 and her balance on her revolving credit was £4,706 which would result in repayments at 5% being around £235 a month.

Based on the information gathered, Ms T was already paying a substantial portion of her declared income towards other credit commitments (around 40% based on the numbers noted above). Ms T was self-employed and has said her income fluctuated which isn't uncommon. Given this I think it would have been reasonable for Tesco Bank to have asked further questions to ensure it had a clear understanding of Ms T's financial circumstances and the money she would have available to repay the new credit.

Ms T has provided copies of her bank statements for the months leading up to the credit card account being opened and a copy of her tax self-assessment from the time. I have looked at this information to assess what Tesco Bank would likely have found had further checks been made.

Ms T declared an annual gross income of £17,000. A monthly net income of £1,500 was then recorded. However, based on an annual gross income of £17,000, the net monthly income for a salaried individual would have been around £1,300. Ms T was self-employed and so it would be important to understand the income that she was able to take towards her expenses (after items such as business expenses). I cannot say what Ms T would have disclosed if asked about her net income (after any business expenses) but her self-assessment gave a total profit of £6,437 for the year of 2021 - 2022, suggesting her income available for her personal use was only around £536 a month.

That said, even taking her monthly net income as £1,300 (based on the gross income of £17,000), I still think this raises concerns about the affordability of a credit card with a credit limit of £5,100. I say this because Ms Ts' credit file showed she was paying £361 towards her loan balances and (based on a rate of 5% for sustainable repayments) £235 for her existing revolving credit. This gives total monthly credit commitments of around £596 (over 40% of Ms T's declared monthly income). Adding the Tesco Bank credit card increases this amount to around 65% of her monthly income. I think that this level of repayments should have raised concerns. Further noting Ms T's other expenses, including her mortgage, other housing costs such as leasehold payments, council tax and utilities as well as her transport and other general living costs and that her income fluctuated and was possibly substantially lower than declared, I do not think this lending should have been considered sustainably affordable for Ms T.

Based on the above I am upholding this complaint.

No new information was provided in response to my provisional 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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've had this approach in mind when considering what's fair and reasonable in the circumstances of this complaint.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks a lender is required to carry out, it just needs to ensure the checks are proportionate when considering things like: the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances.

As I set out in my provisional decision, the results of Ms T's credit check showed she was paying a substantial portion of her declared income towards other credit commitments and so I think it would have been reasonable for Tesco Bank to have asked further questions to ensure it had a clear understanding of Ms T's financial circumstances and the money she would have available to repay the new credit. Had it done this, I think that Tesco Bank would have realised that Ms T's monthly income was lower than it had recorded and that based on her outgoings, the credit card with a limit of £5,100 was likely not to be sustainably affordable for Ms T.

Because of this, and for the reasons I set out in my provisional decision, I do not think this lending should have been provided and so I am upholding this complaint.

Putting things right

Tesco Bank should rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied.

- If the rework results in a credit balance, this should be refunded to Ms T 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 Ms T's credit file.
- Or, if after the rework there is still an outstanding balance, Tesco Bank should arrange an affordable repayment plan with Ms T for the remaining amount. Once Ms T has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

If Tesco Bank has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

*HM Revenue & Customs requires Tesco Bank to deduct tax from any award of interest. It must give Ms T a certificate showing how much tax has been taken off if she 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

My final decision is that I uphold this complaint. Tesco Personal Finance PLC trading as Tesco Bank should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms T to accept or reject my decision before 23 November 2023.

Jane Archer
Ombudsman