

The complaint

Miss G complains that Tesco Personal Finance PLC trading as Tesco Bank irresponsibly lent to her.

What happened

Miss G's Tesco credit card application was approved in April 2017 with a credit limit of £2,600, despite her saying she was already using a large amount of credit elsewhere and her credit file showing missed payments. Miss G made a complaint to Tesco.

Tesco did not uphold Miss G's complaint. They said when she applied, she confirmed her net monthly income was £1,170 and after her total outgoings were deducted (which included the repayment for the new account), she had disposable income available. Tesco said that while there had been a missing/late payment showing on her credit file, this also showed no arrears, no defaults, no County Court Judgements (CCJ's), no Individual Voluntary Arrangements (IVA's). Miss G brought her complaint to our service.

Our investigator upheld Miss G's complaint. He said her income had been verified as £1,170 per month, and Tesco calculated her total monthly outgoings to be £1,156 per month. This suggests she'd have just £14 disposable income after all of her essential expenditure. While this simple calculation suggests the credit was technically affordable, he didn't think it was reasonable to expect consumers to spend such a small amount on non-essential expenditure over the period of a month. And he said other factors could've easily made this unaffordable. He said Miss G's total existing debt was very high and almost equivalent to her net annual income.

Tesco asked for an ombudsman to review the complaint. They said they had verified Miss G's income as she had declared £1,500 net monthly income on her application, but this did not match with the gross income of £16,000 she also declared. They said they used a set 30% assumption for mortgage/rent (which would be £351 a month), despite Miss G saying she was living with parents and paying £200 a month. So if they used what Miss G actually declared, then this would increase her net disposable income by £151 a month.

Tesco said that using her net monthly income of £1,170 and deducting her outgoings such as £132.30 a month for existing credit card payments (5% of her existing balance), her loan monthly repayment of £303, her declared housing costs of £200 a month and living expenses (which they model at a set 30%) and the repayments for her new Tesco credit card which would be £130 a month (5% of the available credit), then she would still have a net disposable income of £53.70.

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.

Before agreeing to approve the credit limit for Miss G, Tesco needed to make proportionate checks to determine whether the credit was affordable and sustainable for her. There's no

prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include - but are not limited to: the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances.

I've looked at what checks Tesco said they did prior to accepting Miss G's application. They said at the time of applying for the credit card, they considered the information that Miss G had gave them, such as being employed, earning a salary of £16,000 with a net income of £1,500, living with parents and they looked at her credit file. Tesco said that Miss G's credit file showed she had external unsecured outstanding debt of £15,429 (£12,603 loan balances and £2,646 in revolving balances – such as credit card balances).

But that's not all the credit file showed. It showed that Miss G had no defaults, CCJ's, IVA's, or bankruptcies, but it did show a late/missed payment within the last six months of her application to Tesco. Due to the income of £1,500 net per month being inconsistent with a gross salary of £16,000, then Tesco contacted Miss G to verify her actual net income. And this was £1,170. So this had been overstated by over 28%.

So I've considered if the checks that Tesco carried out were proportionate to the level of credit that Miss G was given. And I'm not persuaded that they were, and I'll explain why. In considering her existing accounts, Tesco's data shows that Miss G was utilising 72% of her existing credit lines. So while the data showed that her revolving credit balances were £2,646, she would have had access to more than this prior to her Tesco application. I calculate her credit limits prior to the approval of the Tesco credit card to be £3,675. So when she was approved for the Tesco credit card, she would have a total revolving credit limit of £6,275. Based on her net annual income of £14,040 (£1,170 x 12), then her total credit limit would have been nearly 45% of her net annual income and this is without factoring in her outstanding loan balance.

Miss G's credit file also showed a late or missed payment within the last six months. While this could simply have been an oversight, and Miss G did have no arrears at the time of the application, this also could have indicated that she was having financial difficulty. And Miss G had nine accounts (although it is unknown what all nine of these were and when they were opened). Miss G had also overstated her income by 28%, so I'm not persuaded that Tesco should have taken the other figures she provided them at face value (such as housing costs), when she had already given them very different figures to what she actually earned. So based on all of these factors, I would have expected Tesco to make further proportionate checks to ensure the credit limit was affordable and sustainable for her.

I'm persuaded that as part of a proportionate check, Tesco should have requested information from Miss G to discuss her finances, to ensure that she had enough disposable income to be able to afford and sustain repayments to the credit card. For example, they could have, as part of a proportionate check, asked Miss G to provide her bank statements for proof of outgoings, to see if she could afford the proposed credit limit.

Our investigator previously asked Miss G for her bank statements around this time. But she didn't respond to him. I considered asking her for her bank statements again to see what these would have shown. But I've also had to be aware that the lending decision was over six and a half years ago, and banks would not be required to keep the statements for this long. There is also information within the checks Tesco carried out which enables me to make a decision based on what Tesco should have known at the time they approved her application.

I've considered what Tesco has said about Miss G's outgoings and that she would have had a net disposable income even if they calculated 5% of her available balance as a repayment.

The figures they provided to our investigator show for revolving balance payments (both existing and new payments) they calculated that her outgoings would be £262.30 a month. But based on the total credit limits of £6,275, 5% of this figure would be £313.75 a month, so £51.45 higher. So given that Tesco said there was £53.70 net disposable income per month for Miss G, this would technically give her a £2.25 a month net disposable income if I adjusted this for 5% of her total revolving credit limit available to her (eg credit cards). Even a slight increase in her living expenses could make this credit card unaffordable for her if it was to be paid in a sustainable manner, with her not making just minimum (or slightly over minimum) payments.

In addition to this, Tesco have used Miss G's figure of £200 a month for housing expenses. Although she was living with parents, given that she had overstated her net income by 28%, without further proportionate checks with Miss G (such as seeing her bank statements), I'm persuaded that it would have been proportionate for Tesco to use their set modelling outgoings for this, which would have been £351 a month for housing costs. So although I'm persuaded that the credit limit approved by Tesco was not a fair lending decision based on the previous paragraph, I'm satisfied that by Tesco using the lower figure for Miss G's housing costs, when she had already given inaccurate figures as part of her application, then instead of Tesco either verifying this as part of a proportionate check, or to use the higher modelling figures, this meant that the £2,600 credit limit for the credit card they approved for Miss G was not affordable and sustainable for her. So it follows I'll be asking Tesco to put things right for Miss G.

Putting things right

Our investigator suggested that Tesco Personal Finance PLC trading as Tesco Bank should do the following:

Tesco should arrange to transfer any debt back to themselves if it has been passed to a debt recovery agent or liaise with them to ensure the redress set out below is carried out promptly;

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 Miss G along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Tesco should also remove all adverse information regarding this account from her credit file;

Or, if after the rework there is still an outstanding balance, Tesco should arrange an affordable repayment plan with Miss G for the remaining amount. Once Miss G has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

I'm satisfied this is reasonable in the circumstances.

*If Tesco consider that they are required by HM Revenue & Customs to deduct income tax from that interest, they should tell Miss G how much they've taken off. They should also give Miss G a tax deduction certificate if she asks for one, so she can reclaim the tax from HM Revenue & Customs if appropriate.

My final decision

I uphold this complaint. Tesco Personal Finance PLC trading as Tesco Bank should settle

the complaint in line with the instructions in the “*putting things right*” section above.

Under the rules of the Financial Ombudsman Service, I’m required to ask Miss G to accept or reject my decision before 9 November 2023.

Gregory Sloanes
Ombudsman