

The complaint

Mrs B complains that Tesco Personal Finance PLC lent to her irresponsibly.

What happened

In May 2019 Mrs B applied for a credit card. Tesco approved the application and gave Mrs B a card with an initial credit limit of £3800.

Mrs B complained that Tesco had lent to her irresponsibly.

Tesco didn't uphold the complaint. It said it had carried out proportionate checks before lending to Mrs B.

Mrs B remained unhappy and complained to this service.

Our investigator upheld the complaint. She said that the checks carried out by Tesco would've shown that Mrs B was left with such a low level of disposable income that she would be unable to sustainably repay the credit.

Mrs B didn't agree with the investigator. She thought she should receive compensation for distress and inconvenience. She wanted the account balance write off and any adverse information removed from her credit file.

Tesco didn't reply to the investigators view.

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 approach to complaints about irresponsible and unaffordable lending on our website. I've had this approach in mind when considering Mrs B's complaint.

Before agreeing to lend, Tesco needed to complete reasonable and proportionate checks to ensure that Mrs B could sustainably repay what was being lent to her.

There's no set list of checks that a lender has to carry out. But lenders are required to have regard to things like the amount being lent, the total amount repayable, the monthly repayment and the consumers individual circumstances when deciding what's reasonable and proportionate.

Mrs B declared annual income of £12,000 and net income of £952 per month in her application. She didn't declare any mortgage or rent payments, but Tesco estimated these at £286 per month. Tesco also estimated expenses at £286 per month and added £48 per month existing consumer credit commitments. Tesco calculated that this would leave Mrs B with monthly disposable income of around £247 and decided that the repayments on the credit card were sustainable for Mrs B.

Tesco completed a credit check and found that Mrs B had £1607 unsecured debt.

Mrs B has queried the credit check because she says she had an existing loan from Tesco which she was repaying at £323 per month.

This service asked Tesco to look into why the loan wasn't showing on the credit checks at the time Mrs B applied for the credit card.

Tesco confirmed that the loan was in place but couldn't explain why it hadn't been factored into the affordability calculations.

I've thought about whether the lending decision was fair, taking account of the fact that the loan should've been factored into the affordability calculations. Having done so, I don't think Mrs B was likely to sustainably repay the credit, because she would've been repaying around £527 per month towards her debts (including the credit card based on repayments of 5% of the balance). This amounts to around 55% of Mrs B's monthly income. We know from experience that customers who use more than 25% of income to repay debt are likely to experience difficulties repaying debt in the future.

Even making adjustments to the affordability calculations to reflect Mrs B's actual housing costs (which were lower than the figure estimated by Tesco), this leaves Mrs B with only £52 per month disposable income. This isn't sufficient because it leaves no headroom for unexpected expenses.

For these reasons I don't think the checks carried out by Tesco were reasonable and proportionate because it didn't take account of the loan. And I don't think the lending decision as fair because the information showed that the credit wasn't affordable for Mrs B.

I'm therefore upholding the complaint.

Putting things right

Mrs B has had the benefit of the money she's spent on the card so I don't think it's fair to ask Tesco to write off the balance. However, I think interest and charges should be refunded.

Tesco must:

Rework the account removing all interest and charges

If the rework results in a credit balance, this must be refunded to Mrs B together with 8% simple interest. Tesco should also remove all adverse information from Mrs B's credit file relating to this account.

If after the rework there is still an outstanding balance, Tesco must arrange an affordable payment plan with Mrs B. Once Mrs B has cleared the balance, Tesco should also remove all adverse information from Mrs B's credit file relating to this account.

HMRC require Tesco to deduct tax from any award of interest. Tesco must give Mrs B a certificate showing how much tax has been deducted if she asks for this.

Mrs B has asked me to consider further compensation. This isn't in line with our approach to complaints of this type. I understand that Mrs B feels that Tesco should've acknowledged the loan sooner and upheld her complaint. However, even if Tesco had done that, I'm not persuaded that the complaint wouldn't have been brought to this service because of the other aspects of the complaint being pursued by Mrs B (the balance write off).

My final decision

My final decision is that I uphold the complaint. Tesco Personal Finance PLC must take the steps I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs B to accept or reject my decision before 6 August 2023.

Emma Davy
Ombudsman