

Complaint

Mr S 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 as it should have been clear from his credit file that he was not in a healthy position to be accepted for it.

Background

Tesco Bank provided Mr S with a credit card with an initial limit of £250 in October 2021. Mr S wasn't provided with any credit limit increases.

Tesco Bank terminated Mr S' agreement in August 2023.

One of our investigators reviewed what Mr S and Tesco Bank had told us. And she thought Tesco Bank hadn't done anything wrong or treated Mr S unfairly in relation to providing the credit card, or eventually terminating the agreement and applying a default to Mr S' credit file. So our investigator didn't recommend that Mr S' complaint be upheld.

Mr S disagreed with the investigator's assessment and asked for an ombudsman to look at the complaint and reach a final decision.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having carefully considered everything, I've decided not to uphold Mr S' complaint. I'll explain why in a little more detail.

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 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 S 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 S' application after it obtained information on his income and carried out a credit search. And the information obtained indicated that Mr S would be able to make the low monthly repayment due on this credit card. On the other hand Mr S says that he 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 S was provided with a revolving credit facility rather than a loan. And this means that Tesco Bank was 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.

Mr S says that his application was approved through the third-party search engine that he used and no checks were carried out prior to his application being agreed. But I've seen records of the information Tesco Bank obtained from Mr S about his income and crucially that was on the credit search it carried out. So I don't agree that it didn't carry out any checks in the way that Mr S suggests.

Furthermore, the information gathered doesn't indicate to me that Tesco Bank ought to have realised that Mr S didn't have the funds to make the low monthly payment that would be required for this credit card. The credit search carried out did indicate that Mr S had some existing debts. But the searches didn't suggest that he had experienced any recent significant difficulties – in the form of county court judgments ("CCJ") or defaulted accounts - recorded against him.

I know that Mr S has referred to having a default recorded against him and has provided his credit file showing this. But this default was from more than four years prior to this application and even if this had been picked up, given how long it had been since and the low limit being offered here, I don't think that this default would have prompted Tesco Bank to do significantly more here.

Mr S says that Tesco Bank could have done more to verify his income and expenditure by requesting bank statements. Of course, Tesco Bank *could* have done more and a lender can always do more when assessing whether credit is affordable. But I don't need to decide whether Tesco Bank could have done more here. What I need to decide here is whether the rules, regulations and good industry practice *required* Tesco Bank to do more – such as requesting bank statements from Mr S – in order for its checks to have been proportionate.

And, while I know that Mr S doesn't agree with this, I'm afraid that the low monthly payments required plus what Tesco Bank already had about Mr S' circumstances at the time of application, meant that it simply wasn't proportionate for Tesco Bank to obtain bank statements in this instance.

I accept that Mr S 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 S has been going through a difficult time. That said Tesco Bank did not know about this. There wasn't anything in the application provided to indicate this. And I therefore can't reasonably say that these are factors that Tesco Bank ought to have taken into account in its assessment.

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

I now turn to the circumstances behind Mr S' credit card account being terminated in August 2023. It isn't in dispute that Tesco Bank became aware that Mr S was having difficulty making his payments in February 2023. Mr S appears to have had contact with Tesco Bank at this time and he explained he was experiencing difficulty making his credit card payments and a 30-day breathing space, for Mr S to consider his options moving forward, was applied to his account.

After the breathing space completed, Mr S then agreed a three-month repayment plan in April 2023. Mr S was required to make payments of £15 a month for three months before this arrangement would be reviewed. However, Mr S didn't make his June 2023 payment and arrears continued to build on his account. As a result of not hearing from Mr S, Tesco Bank decided to begin taking action to terminate Mr S' credit card agreement. as it was entitled to do in the circumstances. It issued Mr S with a default notice in July 2023.

I do sympathise with what Mr S has told us. I fully appreciate why he's unhappy with adverse information being recorded on his credit file and worried about the impact this will have. But by the time he was contacted in July 2023, he'd broken a repayment plan and had hadn't responded to correspondence regarding this.

So there was no indication Mr S' financial situation had improved and I don't think it would have been fair, reasonable or proportionate for Tesco Bank to hope for the best and ignore Mr S' obvious and apparent difficulty, or the fact that the credit card had become demonstrably unsustainable for him, indefinitely. So by this stage, I would have expected Tesco Bank to have taken action in the way that it did.

After all while terminating a facility and recording a default or other adverse information, might be viewed negatively by other lenders, it does offer the borrower certain protections in relation to the credit card debt. And asking Tesco Bank to remove the default, when Mr S didn't repay this debt in line with the initial arrangements and also didn't keep to the terms of his repayment plan, would arguably be counterproductive and not in Mr S' interests or that of any future lender.

So I'm satisfied it was fair and reasonable for Tesco Bank to begin the process of terminating Mr S' credit card when it did in July 2023 by issuing a default notice. As this is the case and Mr S didn't or wasn't able to take steps to repay what was owed, or reach a suitable arrangement to repay what was owed within a reasonable period of time, I'm satisfied that Tesco Bank was entitled to withdraw Mr S' credit card and record the adverse information it did in August 2023.

Overall and having considered everything, I'm satisfied that Tesco Bank acted fairly and reasonably in its dealing with Mr S. Tesco Bank carried out proportionate checks when deciding to provide Mr S with his credit card and didn't act unreasonably when terminating the agreement after failing to receive payments. Consequently I'm not upholding Mr S' complaint. I appreciate this will be very disappointing for Mr S. 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 S' complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 16 January 2024.

Jeshen Narayanan

Ombudsman