

## **The complaint**

Mrs C complains that Tesco Personal Finance PLC trading as Tesco Bank lent irresponsibly when it approved credit card applications and increased her credit limit.

## **What happened**

The background to this complaint and my initial conclusions were set out in my provisional decision. I said:

*Mrs C applied for a credit card with Tesco Bank in 2014. Tesco Bank approved the application and in 2015 it increased the credit limit. A further credit limit increase, from £4,400 to £5,400, was approved in 2018.*

*In August 2020 Mrs C applied for a second credit card with Tesco Bank. In her application, Mrs C said she was employed with an income of £15,000 a year. Tesco Bank says it carried out a credit search and considered the information Mrs C provided in her application before approving a credit card with a limit of £1,300.*

*Mrs C's explained that the level of credit card debt with Tesco Bank led to financial difficulties. Mrs C went on to raise a complaint that Tesco Bank had lent irresponsibly. Tesco Bank issued a final response that said Mrs C had waited too long to complain about the 2014 application and 2015 credit limit increase. Tesco Bank said that its 2018 credit limit increase was approved in line with its lending criteria. Tesco Bank also said Mrs C's credit card application in August 2020 had been correctly approved and didn't agree it had lent irresponsibly.*

*Mrs C referred her complaint to this service and it was passed to an investigator. The investigator said Mrs C had waited too long to refer the 2014 application and 2015 credit limit increase. An ombudsman later confirmed the investigator's approach and issued a decision that said we could only look at the credit limit increase in 2018 and new application in August 2020.*

*The investigator upheld Mrs C's complaint in part. They thought Tesco Bank should've completed better checks before approving Mrs C's credit limit increase on her first credit card in December 2018. The investigator looked at Mrs C's bank statements from the period immediately before the credit limit increase was approved. They noted Mrs C's outgoings often exceeded her income and explained they thought Tesco Bank had lent irresponsibly when it approved the credit limit increase in December 2018. The investigator wasn't persuaded Tesco Bank had lent irresponsibly when it approved her credit card application in August 2020.*

*Mrs C confirmed she was willing to accept but we didn't hear back from Tesco Bank. As a result, Mrs C's complaint has been passed to me to make a decision.*

## **What I've provisionally 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.*

*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, but it 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.*

*Tesco Bank says that when it increased Mrs C's credit limit in December 2018 it used an income figure of £7,000 and took regular outgoings and information found on her credit file into account. I've looked at the available information and haven't been persuaded Tesco Bank's checks went far enough. Given the increase in credit limit to £5,400, Mrs C's existing credit commitments and regular outgoings when compared against her income of £7,000, I think Tesco Bank should've done more to ensure she could sustainably afford the repayments.*

*As noted above, there's no set list of checks Tesco Bank had to complete. But one option was to review Mrs C's bank statements to get a better picture of her circumstances. Mrs C has provided bank statements for the months immediately preceding the credit limit increase in December 2018. I can see Mrs C's income was broadly in line with the figure Tesco Bank used. I agree with the investigator that there were instances where Mrs C's existing outgoings exceeded her income. In my view, this shows Mrs C was struggling to make ends meet at this time. If Tesco Bank had carried out more comprehensive checks I think it would've found Mrs C was unlikely to be in a position to sustainably repay further credit. In my view, it's more likely than not Tesco wouldn't have increased Mrs C's credit limit to £5,400 in December 2018 if it had carried out better checks.*

*I've gone on to look at Mrs C's credit card application from August 2020. In this application, Mrs C said she was self employed with an income of £15,000. Mrs C also said she was renting privately. Tesco Bank carried out a credit search and found details of Mrs C's other credit. I can see Tesco Bank factored this into Mrs C's application and used a total outgoings figure of £761 against a net income figure of £900. That meant Mrs C would've been left with around £140 a month surplus income after covering her outgoings and repayments. That's a very limited amount for unexpected expenses, especially given Mrs C confirmed she had a dependent. In my view, Tesco Bank should've done more to ensure Mrs C could afford to sustainably repay the new credit card before approving it.*

*I've looked at Mrs C's bank statements for the months preceding her application in August 2020. The bank statements are joint, but the only income they show appears to come from benefits rather than a self employed income. In addition, I can see rent of £1,200 plus regular direct debits that take up a substantial part of the monthly income. In my view, if Tesco Bank had carried out better checks, like reviewing Mrs C's bank statements, it would've found her self employed income wasn't in line with the figure noted in her application. And I think Tesco Bank would've found Mrs C wasn't in a position to afford further borrowing and repay it sustainably. As a result, I've reached a different decision to the investigator. My view is that Tesco Bank lent irresponsibly in August 2020 when it approved a second credit card for Mrs C.*

*Based on the information I've seen so far, I intend to uphold Mrs C's complaint and direct Tesco Bank to refund interest, fees and charges applied as set out below.*

I invited both parties to respond with any additional comments or information they wanted me to consider before I made my final decision. Mrs C responded to confirm she's willing to accept. We didn't receive a response from Tesco Bank.

### **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.

As neither party has provided new information for me to consider I see no reason in changing the conclusions I reached in my provisional decision. I still think Mrs C's complaint should be upheld, for the same reasons.

### **My final decision**

My decision is that I uphold Mrs C's complaint and direct Tesco Personal Finance PLC trading as Tesco Bank to settle as follows:

#### **Credit card 1**

- Rework the first credit card removing all interest, fees, charges and insurances (not already refunded) that have been applied to balances above £4,400 from December 2018
- If the rework results in a credit balance, this should be refunded to Mrs C 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 recorded after December 2018 regarding this account from Mrs C's credit file
- Or, if after the rework the outstanding balance still exceeds £4,400, Tesco Bank should arrange an affordable repayment plan with Mrs C for the remaining amount. Any balance over £4,400 should be administered on an interest free basis until repaid. Once Mrs C has reduced the balance to under £4,400, any adverse information recorded after December 2018 in relation to the account should be removed from their credit file

#### **Credit Card 2**

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied since inception
- If the rework results in a credit balance, this should be refunded to Mrs C 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 recorded after August 2020 regarding this account from Mrs C's credit file
- Or, if after the rework an outstanding balance remains, Tesco Bank should arrange an affordable repayment plan on an interest free basis with Mrs C for the remaining amount. Once Mrs C has repaid the balance, any adverse information recorded in relation to the account should be removed from their credit file

\*HM Revenue & Customs requires Tesco Bank to deduct tax from any award of interest. It must give Mrs C a certificate showing how much tax has been taken off if she asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or reject my decision before 6 February 2024.

Marco Manente  
**Ombudsman**