

The complaint

Mr B complains that Tesco Personal Finance PLC trading as Tesco Bank lent irresponsibly when it approved his credit card application in January 2018.

What happened

In January 2018 Mr B applied for a credit card with Tesco Bank. In his application, Mr B said he had a mortgage, was employed with an income of £32,000 and single with no dependents. Tesco Bank says it carried out a credit search and found Mr B had a £60,000 mortgage, £14,131 in unsecured loans and £11,695 in other unsecured credit, like credit cards. Tesco Bank says there was no adverse information but noted a missed payment in the six months before Mr B's application was made.

Tesco Bank says it took the information from Mr B's application and credit file and applied its lending criteria. Tesco Bank says it calculated Mr B had a net monthly income of £2,200 and would have had £209 disposable income available once all his living costs and credit commitments were met. Tesco Bank approved a credit card with a limit of £3,800.

Mr B has explained that he's struggled to maintain the payments and in 2023 had to ask for breathing space.

Last year, Mr B complained that Tesco Bank had lent irresponsibly when it approved his application and failed to provide reasonable support when he experienced financial difficulties. Tesco Bank issued a final response but didn't agree it had lent irresponsibly and didn't uphold Mr B's complaint.

An investigator at this service reviewed Mr B's complaint and upheld it. They thought the level of disposable income remaining to Mr B once his existing commitments and new Tesco Bank credit card payment were covered was insufficient to show he could sustainably afford to make repayments.

The investigator thought Tesco Bank should've carried out better checks during the application and obtained copies of Mr B's bank statements from the time. They showed Mr B's income was lower than the figure declared in the application and that in the months leading up to his application several payments to credit providers, including Mr B's mortgage provider, were returned. The investigator thought that if Tesco Bank had done more when considering Mr B's application, it would've declined it. The investigator asked Tesco Bank to refund all interest, fees and charges applied to the balance from inception.

Tesco Bank asked to appeal and said the mortgage figure used in its calculations was £660 as opposed to the actual figure of £494. Tesco Bank added that at 3% of the balance, Mr B's monthly repayment figure was £114 which meant he was left with £133 a month as surplus income. Tesco Bank asked to appeal, so Mr B's complaint has been passed to me to make a 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.

Before agreeing to lend by increasing the credit limit, the rules say Tesco Bank had to complete reasonable and proportionate checks to ensure Mr B could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstance by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

I've looked at the information Tesco Bank had available when it considered Mr B's application and agree with the investigator that it should've done more before approving it. I'll explain why.

Tesco Bank's assessment showed Mr B had £209 disposable income after covering his existing costs each month. Tesco Bank says it calculated repayments at 3% of the balance. And Mr B could borrow up to £3,800 meaning payments of £114 a month. That means, after covering his existing costs and Tesco Bank's new credit card, the application figures showed Mr B had around £94 a month. Given Mr B's declared income of £32,000 and total outstanding unsecured debt of around £25,800 at the point of application, along with a missed payment on his credit file, I think there were clear signs Mr B wasn't borrowing at a sustainable level. In my view, the low disposable income figure when compared with Mr B's circumstances should've caused Tesco Bank to carry out more comprehensive checks before deciding whether to proceed.

Like the investigator, I've looked at Mr B's bank statements from the months before his application was made. Tesco Bank used a net monthly income figure of £2,200. But in the three months before Mr B applied, he earned an average of £1,912 a month which is substantially less. I also think it's fair to say that Tesco Bank would've seen evidence of multiple reversed payments to Mr B's other creditors, including a reversed mortgage payment. In my view, the bank statements show Mr B wasn't sustainably affording his existing commitments in January 2018. I'm satisfied that if Tesco Bank had carried out better checks, like verifying Mr B's income or looking at his bank statements, it would've found he wasn't in a position to sustainably afford an increase in credit of £3,800 and declined his application. Overall, I'm satisfied Tesco Bank did lend irresponsibly in this case.

I want to assure Tesco Bank I've read and considered its response to the investigator, including its analysis of Mr B's circumstances. But the response is made based on the information Tesco Bank was given by the investigator that came from Mr B's bank statements. Tesco Bank would've only found out about the lower mortgage figure if it had carried out better checks. And, for the reasons I've given above, I'm satisfied that a review of

Mr B's bank statement, for example, would most likely have led Tesco Bank to decline his application based on the information it would've found.

As I'm satisfied Mr B's complaint should be upheld, I'm going to tell Tesco Bank to refund all interest, fees and charges applied from inception and agree an affordable repayment plan for any remaining amounts.

My final decision

My decision is that I uphold Mr B's complaint and direct Tesco Personal Finance PLC trading as Tesco bank to settle as follows:

- 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 Mr B 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 Mr B's credit file
- Or, if after the rework there is still an outstanding balance, Tesco Bank should arrange an affordable repayment plan with Mr B for the remaining amount. Once Mr B has cleared the balance, any adverse information 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 Mr B a certificate showing how much tax has been taken off if he asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 1 March 2024.

Marco Manente
Ombudsman