

The complaint

Miss J complains that Tesco Personal Finance PLC ("Tesco Bank") approved a credit card for her and then continued to increase the credit limits when she could not afford the credit.

What happened

Tesco Bank has supplied some details of the card. It was approved in June 2014 and the limits were increased as follows:

Date	Old limit	New limit
11 August 2015	£2,300	£5,300
22 July 2016	£5,300	£6,300
24 August 2017	£6,300	£9,300
10 September 2018	£9,300	£12,300
6 June 2024	£12,300	£14,300

Miss J says that Tesco Bank should never have allowed her to have an account with such a large credit limit and then continued to increase her credit limit to the levels it did. Miss J has received a further offer of an increase to £14,300 in June 2024 which was after she had complained to Tesco Bank.

Miss J complained in December 2023 and Tesco Bank's final response letter (FRL) in January 2024 did not consent to us investigating any of the credit limit increases before August 2018 due to the passage of time - that Miss J had complained too late for those earlier increase of limits. Tesco Bank's view in relation to the 2018 increase was that it had carried out the right checks and it did not uphold Miss J's complaint for that one.

Miss J referred it to the Financial Ombudsman Service. There are no jurisdiction issues I need to be concerned with as these were resolved earlier.

In relation to the merits of the complaint, one of our investigators looked at it and his second view was that he thought that the initial card application in 2014 ought not to have been approved - Tesco Bank needed to rework the card account from 2014 and pay Miss J redress. Tesco Bank did not agree. The unresolved complaint was passed to me to decide.

Having reviewed it I asked both parties for additional information which was sent to me. On 12 November 2024 I issued a provisional decision giving reasons why I planned to uphold the complaint in part. It included the 2024 credit limit increase as I had information about it.

That is duplicated below for ease of reading. .

What I 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. Having done so, I've reached a different conclusion from that of our investigator. We've set out our approach to complaints about irresponsible lending on our website – including the key relevant rules, guidance, good industry practice

and law. I've considered this approach when deciding this complaint.

Tesco Bank needed to carry out reasonable and proportionate checks to ensure that it didn't lend to Miss J irresponsibly. I think there are key questions I need to consider in order to decide what is fair and reasonable in the circumstances of this complaint:

- Did Tesco Bank carry out reasonable and proportionate checks to satisfy itself that Miss J was in a position to sustainably repay the credit?
 - If not, what would reasonable and proportionate checks have shown?
- Did Tesco Bank make fair lending decisions?
- Did Tesco Bank act unfairly or unreasonably towards Miss J in some other way?

It's not about Tesco Bank assessing the likelihood of the credit being repaid, but it had to consider the impact of the repayments on Miss J. There is no set list of checks that it had to do, but it could take into account several different things such as the amount of credit, the monthly repayments, and the overall circumstances of the borrower.

Did Tesco Bank carry out reasonable and proportionate checks? Did it make fair lending decisions?

Tesco Bank has explained that when an application is made for a credit card, it makes its decision based on the information given by the applicant, and the information it obtains from Credit Reference Agencies (CRAs). Tesco Bank says that it satisfies itself that the lending will be affordable to the applicant and that the repayments are sustainable. These checks are proportionate to the level of credit being granted and customer focussed. Tesco Bank says it's not a requirement to conduct a full income and expenditure (I&E) analysis for each application.

Opening of the account with a limit of £2,300

Tesco Bank has sent us details of its checks carried out in June 2014. Those application details show that Miss J told Tesco Bank that she was a student, working part time earning £750 a month, had no dependents and was living with her partner. The CRA search indicated that Miss J had current total debt of £466 and there were no adverse records of any kind.

Tesco Bank, having identified what the likely living costs were in 2014, attributed 30% of the net monthly income for housing and cost of living payments, and it says this would've been £225 for each person. Tesco Bank increased the £225 figure for Miss J to £521 to cover her total outgoings which included repayments towards existing debt (of which she had little), housing and cost of living, repayments towards the new lending and provision for inflation.

Miss J's indebtedness at the time was very low. Tesco Bank calculated this lending based on her part-time income Miss J had told it and which it had verified. I acknowledge Miss J is not content with Tesco's verification process, but in my experience it used a common method. I do not consider that it needed to ask Miss J for additional information or view any further documents from her.

I've noticed that no interest was being charged in the early part of the lending relationship and so I think it's likely it was a promotional 0% interest offer. Using an archived Tesco Bank website page from around that time I've read that these opening offers often lasted 19 months. Reviewing the credit card statements I have seen for Miss J no interest was charged until the March 2016 card statement which would fit with that being around a 19 month 0% interest offer. So, Miss J would have suffered no loss before March 2016.

My provisional decision is that the card was approved for Miss J after proportionate checks had been carried out. I plan not to uphold the complaint about the initial lending decision.

Credit limit increase August 2015 to £5,300

This credit limit increase was still within the 0% interest period. Miss J has told us that she was receiving £595 bursary payments a month from September 2014 to September 2016. Due to the time elapsed, Tesco has said it has no record of the income figure it used for Miss J for this credit limit increase. But if it had checked this then it would have seen that Miss J was receiving that £595 monthly amount and that her overheads were low.

Tesco Bank did carry out a credit search. It found that Miss J had total unsecured debt of £2,514 of which £2,235 was revolving credit which included the Tesco Bank card balance and Miss J had £279 of loan balances. There was no adverse data.

I consider this to be a low debt level and I'd not expect Tesco Bank to have been concerned about this record. It would have looked at the management of the account since inception. It has told us that the management was good and Miss J had not been charged any late payments. Tesco Bank has sent us those credit card statements and I have reviewed them to see what it would have seen.

I've seen nothing from the checks Tesco Bank carried out that lead me to think it ought to have done more to check her circumstances. From what it could see, Miss J was using her credit card account well and paying no interest. Her credit file showed she was managing her external credit well too. I think the checks carried out were reasonable and proportionate and Tesco Bank reached a fair decision to increase the credit limit for Miss J in August 2015. I plan not to uphold the complaint for the first credit limit increase in August 2015.

Credit limit increase July 2016 to £6,300

Interest started to be charged on the card from March 2016. So, there's no real loss attributed to Miss J having the card until she started to be charged interest.

Tesco Bank has said it had much the same information it had for credit limit increase as it has said for the previous one. It has no record of the income it would have used when reviewing the credit limit. Miss J's credit file showed that she had no adverse entries. Her total unsecured debt had increased to £5,593 of which £5,265 was its own credit card balance. Miss J had loan balances of £328. This was an overall debt increase but as most of it was with the Tesco Bank card then its own records would have been easily available to Tesco Bank for it to be able to see how the account was run.

Although Miss J has pointed out that Tesco Bank does not have a record of her income now, it did have the details I've outlined above. And if it had asked Miss J for more information she'd have been able to tell it about her income and expenditure in June 2016. She had been on £595 a month plus some benefits of around £88 each four weeks.

Miss J has told us that for the years 2016/2017/2018 her partner owned the property they lived in outright with no mortgage and so her contribution to the household was Council tax at £155 a month plus the TV licence. Miss J paid for her own phone and the petrol, car insurance and car running costs. On balance, I consider this credit limit increase to have been a fair and reasonable one. I plan not to uphold the complaint about this credit limit increase.

Credit limit increase August 2017 to £9,300

Miss J has told us that her income from a stipend from December 2016 to December 2019 was £1,100 each month. I've seen from her bank statements for the period that this was £1,200 sometimes. Miss J was receiving benefits as well of about £229 each four weeks.

Tesco Bank has said that the income figure it has recorded as having obtained from the CRAs was £1,593 and her total unsecured debt was £7,071 all of which was revolving credit. This debt level had increased significantly since its last search. Plus, this proposed credit limit increase was for £3,000 which was a significant sum. So, I think that it ought to have done more before deciding to increase it by £3,000.

Miss J had other cards by this time as the Tesco Bank card had a limit of £6,300 on it but her

overall credit card debt was higher. So Tesco Bank would have known this.

Tesco Bank has said that in the previous year she had managed the card well with no late or missed payments, and the CRA check revealed no adverse data. But I can see that on the December 2016 statement she was over her limit – just under £6,375. She was charged an overlimit fee of £12 on 9 November 2016. In the January 2017 statement the balance just nudged under the limit at £6,274. Late January 2017 and early February 2017 Miss J made a series of payments to bring the balance down to £3,532. But Miss J has explained that parts of those payments were by utilising 0% balance transfer offers to other cards. But at the same time Miss J has sent us evidence to show that she was missing payments on her other two credit cards in early 2017 and during that year up to August 2017.

Had it done further checks, Tesco Bank would have seen that her partner gave her £1,690 and Miss J used all of that - £1,700 in fact – to pay down her credit card on 25 July 2017. Miss J has told us that this occurred quite frequently. Having made additional checks, I think it would have gained the full picture. Miss J was still a student, had health issues and was being supported by family and her partner a great deal.

So, I don't think that a credit limit increase to £9,300 in August 2017 was likely to be sustainable for Miss J. I plan to uphold the complaint from this point – 24 August 2017 – and that the credit limit ought to have remained £6,300. No further credit limit increases ought to have taken place. This includes the one made recently in June 2024.

Did Tesco Bank act unfairly or unreasonably towards Miss J in some other way?

I've considered whether the relationship between Miss J and Tesco Bank might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed should be carried out for Miss J results in fair compensation for him in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

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.

Both parties were given time to respond. Tesco Bank said it had nothing further to add.

Miss J said that she accepted the provisional decision based on the information that has been presented. But Miss J added that if Tesco Bank decided to provide more information or if the decision was changed, she'd want to provide further comments and information.

As neither party have sent to me additional submissions or evidence and as Miss J is content with the outcome of the provisional decision then I've no need to depart from those findings. For the same reasons given above in the provisional decision then my final decision is that I do not consider Tesco Bank ought to have made any further credit limit increases in August 2017. The credit limit ought to have remained at £6,300 in August 2017.

Putting things right

Having thought about everything, I'm satisfied that it would be fair and reasonable in all the circumstances of Miss J's complaint for Tesco Bank to put things right by:

- reworking Miss J's current credit card balance to ensure that all interest, fees, and charges added from 24 August 2017 over and above the £6,300 limit are refunded.

AND

- if an outstanding balance remains on Miss J's account once these adjustments have been made Tesco Bank should contact her to arrange a suitable repayment plan

OR

- if the effect of removing all interest, fees and charges results in there no longer being an outstanding balance, then any extra should be treated as overpayments and returned to Miss J along with 8% simple interest* on the overpayments from the date they were made (if they were) until the date of settlement.
- if no outstanding balance remains after all adjustments have been made, then Tesco Bank should remove all adverse information it has recorded on Miss J's credit file.

Tesco Bank can reduce Miss J's credit limit by the amount of compensation it awards, so long as doing so wouldn't leave Miss J's balance above any new credit limit.

*HM Revenue & Customs usually requires Tesco Bank to take off tax from this interest. It must give Miss J a certificate showing how much tax it has taken off if she asks for one.

My final decision

I uphold the complaint in part and I direct that Tesco Personal Finance PLC does as I have outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss J to accept or reject my decision before 24 December 2024.

Rachael Williams
Ombudsman