

The complaint

Mr R complains that Tesco Personal Finance PLC trading as Tesco Bank (referred to in this decision as “Tesco Bank”) lent to him irresponsibly. He complains Tesco Bank didn’t do enough to check the lending would be affordable for him.

What happened

Tesco bank provided Mr R with a credit card which had a limit of £2,000 in July 2018. In January 2019, the credit card limit was increased to £3,000.

One of our investigators reviewed what Mr R and Tesco Bank had told us. He thought that Tesco Bank shouldn’t have provided this credit card and recommended Mr R’s complaint be upheld. Tesco Bank disagreed and asked for an ombudsman to look at the complaint.

My provisional decision of 10 October 2024

I issued a provisional decision on 10 October 2024 setting out why I wasn’t intending to uphold Mr R’s complaint.

In summary, I wasn’t intending to uphold Mr R’s complaint because, while I found the checks Tesco Bank carried out weren’t necessarily reasonable or proportionate in relation to the decision to provide him with a credit card, I do think a reasonable and proportionate check would have found the initial lending, and subsequent credit limit increase, to be affordable and sustainable for Mr R. Furthermore, I thought that the checks Tesco Bank carried out before offering to increase Mr R’s credit limit were reasonable and proportionate.

Responses to my provisional decision

Tesco Bank has responded to my provisional decision and said it has nothing further to add ahead of my final decision.

Mr R has responded to my provisional decision. In summary, he’s said that he provided an income and expenditure assessment based on the content of his bank statements. He’s said that when an income and expenditure assessment is calculated on the basis of these statements it becomes evident that he would struggle to maintain even the minimum payments on a £2,000 credit balance.

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 explain how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Mr R’s complaint.

I want to thank Mr R for his response to my provisional decision, I’ve carefully considered what he’s said and I’ll go on to address Mr R’s concerns. However, ultimately, my decision on this case hasn’t changed.

I'm therefore still not upholding Mr R's complaint. I'll go on to explain why in more detail.

Tesco Bank needed to ensure it didn't lend irresponsibly. In practice, what this means is Tesco Bank needed to carry out reasonable and proportionate checks to be able to understand whether Mr R could afford to repay the lending in a sustainable way before providing this loan.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we don't think it's necessarily unreasonable for a lender's checks to be less detailed – 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's decision to provide Mr R with a credit card with a limit of £2,000

This was Mr R's first credit facility with Tesco Bank. It's my understanding Tesco Bank agreed to the lending after it reviewed information disclosed by Mr R in his application, reviewed information from credit reference agencies and completed a calculation of how much it thought Mr R could afford to pay using the information it had obtained and data about living costs from the Office of National Statistics ("ONS").

Tesco Bank has said these checks allowed it to conclude the lending would be affordable for Mr R. However, Mr R has said he shouldn't have been lent to. I've thought carefully about what Tesco Bank and Mr R have said.

What's important to note is that Tesco Bank provided Mr R with a revolving credit facility rather than a loan. And this means that Tesco Bank was required to understand whether the amount Mr R could owe on credit limit of £2,000, could be repaid within a reasonable period of time. I think it's fair to say that a balance of £2,000 wouldn't have required particularly large monthly payments in order to clear the full amount within a reasonable period of time.

The credit check Tesco Bank carried out showed there was no recent significant adverse information recorded against Mr R. There were two defaults however, these were historic – with the most recent of these being registered over five years prior to the credit card being agreed. The credit check also showed Mr R had nine active accounts with outstanding balances totalling £9,698 – which was made up of £899 in revolving credit, and £8,799 in loans. The credit check recorded the monthly payments of Mr R's fixed term credit as £306 a month. The credit report also indicated Mr R was currently using 22% of the existing credit available to him.

In the credit application completed by Mr R ahead of this facility being agreed, Mr R disclosed that he had an annual income of £27,000. He shared he was employed full-time and was living with his partner in rented accommodation with no dependents.

It's my understanding Tesco Bank carried out a calculation of what Mr R could afford to pay using Mr R's declared income, information from credit reference agencies and then ONS data relating to housing and living costs. I can see that from this calculation, a credit limit of £2,000 was found to be affordable for Mr R. Tesco Bank estimated Mr R's monthly income after tax (based on his declaration that he had an annual income of £27,000) and deducted his 'total outgoings' which Tesco Bank's notes from the time say included a provision for inflation and the new lending to be agreed. Tesco Bank has explained a more complex

monthly calculation would also have been made alongside this - it hasn't been able to provide evidence of this calculation but has demonstrated to our service that this also showed the lending to be affordable.

Looking at the information Tesco Bank obtained in order to make its lending decision, I do think more needed to be done to ensure the checks were proportionate. In particular, I'm concerned that Tesco Bank didn't ask for any information relating to his living expenses such as his rent costs. Rather it relied solely on ONS data to estimate these costs.

As I've found that proportionate checks weren't carried out. I now need to consider what information reasonable and proportionate checks would have provided to Tesco Bank and if this would have made a difference to its decision to lend.

While I can't know what answers Mr R would have given at the time if further questions had been asked by Tesco Bank about his living expenses, the investigator who looked into this complaint saw that Mr R was making a monthly payment to his partner of £1,100 and made a finding that this was his contribution to the monthly household expenses inclusive of any rent being paid at the time the credit card was agreed. I'm persuaded by the investigator's conclusions, and I note this figure hasn't been disputed by either party to the complaint. Considering this, I think it's reasonable for me to proceed on the basis that Tesco Bank would have worked out that this is the amount Mr R was paying towards his living expenses each month if it had taken steps to find out more about this.

However, if Tesco Bank took this figure, added payments towards his credit commitments as identified on its credit check, included repayments towards the new lending to be agreed and then deducted this from Mr R's declared income figure – I don't think it would have deemed the potential amount Mr R could have to pay as a result of this additional credit facility, to be unaffordable.

I therefore don't think that reasonable and proportionate checks would have indicated Mr R couldn't afford the credit facility. And I think it would still have been reasonable for Tesco Bank to have found Mr R could afford to make the required payments and proceed with the lending even if it had found out more about his circumstances.

I'm aware the investigator reached a finding that Tesco Bank ought to have verified all of Mr R's income and expenditure, which effectively amounted to reviewing bank statements, alongside a full credit file review that would have provided detailed account breakdowns and recent repayment history. He reached this conclusion on the basis that the checks Tesco Bank carried out would only have been appropriate if Mr R's financial circumstances were stable and then set out his reasons as to why he believed this was not a reasonable conclusion for Tesco Bank to have reached.

Mr R has also said that if the income and expenditure assessment had been carried out in line with a check involving bank statements – the lending wouldn't have been deemed affordable. In his response to my provisional decision, Mr R has provided a calculation which he says is based on this information in support of this. I've reviewed everything provided and reached my own conclusions on what proportionate checks are more likely than not to have shown.

Mr R declared an annual income of £27,000 at this time. Tesco Bank didn't lend on the basis of Mr R's declared income alone it also carried out credit checks. This showed that Mr R's existing debts came to less than £10,000. I don't think that it is correct to say that Tesco Bank didn't take steps to see how Mr R was managing his debts bearing in mind that it checked to see whether he had any significant adverse information recorded against him. He

did have two defaulted accounts recorded against him, but it was close to the stage where this information would no longer be reported as these defaults took place more than five years prior to this application. In any event, even if further detailed information was gathered on Mr R's credit accounts, I can see from the credit file we've been provided that Tesco Bank would have found no other adverse payment information recorded – so I don't think it would have led it to do anything differently.

Equally, Mr R's total indebtedness elsewhere wasn't high, and Tesco Bank knew that the vast majority of his existing commitments were made up of fixed payment loans. So I don't agree that the credit search did indicate a likelihood that Mr R would not be able to make the repayments to clear a possible balance of £2,000 within a reasonable period of time. Furthermore, there wasn't anything in the credit check which ought to have alerted Tesco Bank to the fact that Mr R's declaration of income may not have been accurate. And I don't think that this is a case where Tesco Bank relied solely on a statement of income and expenditure provided by Mr R either.

I'm also mindful that this was the first credit facility which Tesco Bank was providing to Mr R. And it was for a relatively low initial balance on a credit card. As a result, I wouldn't necessarily expect it to have verified his income through a pay slip or a bank statement – particularly given that it had already verified some of Mr R's expenditure with the credit check.

I accept that Mr R's actual circumstances at the time may have been worse than the information gathered shows. I know that the investigator referred to Mr R's gambling and I can see this on the statements provided. I can also see that Mr R's income is lower than that declared. I accept that if Tesco Bank had known about Mr R's gambling and his reduced income, as Mr R and our investigator appear to be saying it should have, it's possible, but by no means certain, that it may have reached a different decision on providing the credit card.

However, given the circumstances here, in particular considering:

- the amount of the advance,
- that this was Mr R's first application for credit with Tesco Bank,
- that there was no significant adverse information revealed as part of its checks – nor would there have been if it had sought even more detailed information relating to the breakdown of Mr R's current credit commitments,
- and that Mr R's living expenses (if further questions were asked) indicated the lending would still be affordable based on the income disclosed by Mr R.

I don't think a reasonable or proportionate check would have required Tesco Bank to obtain Mr R's bank statements. Therefore, even though the monthly payments may have as a matter of fact been unaffordable, as Mr R has argued bank statements show in his response to my provisional decision, I don't think that Tesco Bank knew this or that it could be expected to know this. Indeed, requesting bank statements in this way would result in a lender applying a high level of scrutiny to a first application with it. This is the sort of check that would only normally be expected where a borrower was being provided with credit secured by a charge on their home. And this would be in circumstances where Mr R was not presenting as an individual with obviously distressed finances either.

Therefore, while I sympathise with Mr R's personal circumstances, I don't think that a proportionate check would have led to Tesco Bank knowing about Mr R's gambling transactions or his reduced income. Therefore, I don't think that it is fair and reasonable to

take this into consideration and I'm not upholding Mr R's complaint about Tesco Bank's initial decision to provide him with a credit card with a limit of £2,000.

The decision to increase Mr R's credit limit to £3,000 in January 2019

I'll now consider the credit limit increase to £3,000 which Tesco Bank agreed in January 2019. As I explained in my provisional decision, our investigator did not reach an individual finding on this lending decision as he thought Mr R shouldn't have been accepted for the credit card in the first place. I've considered the available evidence and reached my own conclusions on whether it was fair and reasonable for Tesco Bank to have increased Mr R's credit limit.

Tesco Bank was again required to understand whether a credit limit of £3,000 could be repaid within a reasonable period of time. I'm mindful that this limit increase would have required higher monthly payments should Mr R have used all of the credit made available to him. That said, for reasons I'll go on to explain, I think that Tesco Bank was entitled to conclude Mr R could make the payments required in order to clear the balance that could be owed within a reasonable period of time.

I understand that Mr R's limit increase was granted after Mr R applied for this. So this wasn't a case of a lender proactively increasing a customer's credit limit. Tesco Bank has explained that before agreeing to the limit increase it carried out a calculation of what Mr R could afford to pay using information supplied by Mr R relating to his income, information it had gathered from credit reference agencies, and ONS data relating to housing and living costs. It also placed weight on how Mr R had managed his Tesco Bank credit card account since it was opened.

While Tesco Bank hasn't been able to provide the granular detail of the information gathered, it's said that there was no deterioration in Mr R's financial position and Mr R's unsecured debt inclusive of this Tesco Bank credit card balance, had decreased to £8,689 by the time of this application. It's also said its affordability assessment showed the lending would be affordable for him.

As part of my considerations, I have cross referenced the information Tesco Bank says it gathered from its credit check with the credit file Mr R has supplied to our service. While this credit file does not show any significant adverse information was recorded against Mr R, I am mindful that it shows in September 2018 that an additional credit card was taken out. And it shows that in November 2018 Mr R's £4,540 loan had been repaid, and another loan for £8,000 had been taken out. Tesco Bank's credit check from the time doesn't include this additional £8,000 loan.

However, it's worth noting that Tesco Bank's checks were a snapshot of what it saw in relation to Mr R's circumstances at the time he applied for his limit increase. Whereas the copy of the full credit report Mr R has now provided shows all the entries on his credit file going back six years.

This credit file does not state when exactly the report was updated with each entry, but it's my understanding that it generally takes up to 90 days for new entries to be entered and repaid credit to show as settled. So I think that the information Tesco Bank has provided more likely than not accurately reflects what it is likely to have seen and I think that it was fair and reasonable for it to rely on this.

I am aware the overall accounts Mr R held would have increased by one (the credit card in September would have more likely than not have been showing) and this would have been

known to Tesco Bank. However, I don't think an increase of one account in a six-month period should have necessarily led it to do anything differently. This is particularly bearing in mind that Tesco Bank's checks showed Mr R's overall indebtedness was less even allowing for this extra account.

In addition to this, I've also reviewed Mr R's Tesco Bank credit card statements from the date the card was taken out as Tesco Bank considered Mr R's management of the account as part of its assessment. Having done so, I can see that Mr R made a payment over the minimum repayment required each month. Furthermore, it's clear that at times he made additional large payments, for example, a payment of £877 and another of £250. These payments were in excess of what Mr R would need to make in order to clear a balance of £3,000 within a reasonable period of time. So Mr R making these payments could reasonably have been interpreted as him demonstrating an ability to make the payments he could end up having to make as a result of his limit increase. Mr R also hadn't utilised his full credit limit and was at around 75% of his current lending limit when this additional increase was approved.

So overall I'm satisfied that the information Tesco Bank obtained from its credit checks at the time indicated Mr R's overall indebtedness had decreased and that there wasn't any recent significant adverse information recorded against him. And when this is coupled with Mr R having made payments akin to what would be required to repay a balance of £3,000 within a reasonable period of time, I'm satisfied that its checks before agreeing to increase Mr R's credit limit were reasonable and proportionate. And I'm therefore not intending to uphold Mr R's complaint about the limit increase either.

In reaching my conclusions, I've also considered whether the lending relationship between Tesco Bank and Mr R might have been unfair to Mr R under Section 140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I don't think Tesco Bank lent irresponsibly to Mr R or otherwise treated him unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A or anything else would, given the facts of this complaint, lead to a different outcome here.

So overall, and having considered everything, I don't think Tesco Bank's decisions to lend to Mr R were unfair. And this means that I'm not intending to uphold Mr R's complaint. I appreciate this will be very disappointing for Mr R – but I hope he'll understand the reasons for my final decision.

My final decision

For the reasons I've explained, I'm not upholding Mr R's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 18 December 2024.

Georgina Arnott
Ombudsman