DRN-1486133

The complaint

Mr A complains that Tesco Personal Finance PLC ("Tesco") lent to him in an irresponsible manner.

What happened

Mr A took out an initial loan with Tesco in October 2013 for £15,000. He also opened a credit card around a year later in October 2014 with a credit limit of £8,200, and later applied for a second loan on 7 November 2014 for £25,000 in order to pay off the first loan in full.

Mr A complained that Tesco acted irresponsibly by allowing him to take out the £25,000 loan. He says he was using the credit card to fund his gambling, which resulted in him building up a large debt, and that they should not have lent to him in November 2014 as this allowed him to refinance his debts to carry on gambling. Mr A says that Tesco should have seen the gambling transactions on his credit card statements and believes they have breached their duty of care by allowing him to refinance.

Mr A subsequently entered into an IVA in August 2015 as he was unable to repay his debts. He says that this has caused his mental health to suffer, and that he wants Tesco to pay compensation and apologise for lending to him irresponsibly.

Tesco said it had no reason to suspect that there were any concerns with Mr A's financial status as he had maintained all his previous payments and his credit checks proved satisfactory. It said it had no indication that Mr A had a gambling problem at the time, and that he made no attempt to ask for any help or support.

Our investigator upheld the complaint. She was satisfied that Tesco had no cause for concern when agreeing to lend Mr A the £25,000 in November 2014, so she didn't think they had to do anything further. Mr A disagreed, so the matter has been escalated to me to determine.

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.

Having done so, I have decided not to uphold it. We've set out our approach to unaffordable/irresponsible lending complaints on our website and I've kept this in mind while deciding Mr A 's complaint.

Best practice at the time Tesco gave the loan to Mr A suggested it should carry out a reasonable and proportionate assessment of whether he could afford to repay what he owed in a sustainable manner. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower" focused – so Tesco had to think about whether repaying the credit sustainably would cause difficulties or adverse consequences for Mr A. In practice this meant that Tesco had to ensure that making the repayments wouldn't cause Mr A undue difficulty or adverse consequences. In other words, it wasn't enough for Tesco to simply think about the likelihood of it getting its money back, it had to consider the impact of any repayments on Mr A.

Checks also had to be "proportionate" to the specific circumstances of the loan application. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount / type / cost of credit they are seeking.

In light of this, I think that a reasonable and proportionate check ought generally to have been *more* thorough:

- the *lower* a customer's income (reflecting that it could be more difficult to make any repayments to credit from a lower level of income);

- the *higher* the amount due to be repaid (reflecting that it could be more difficult to meet higher repayments from a particular level of income);

- the *longer* the period of time a borrower will be indebted for (reflecting the fact that the total cost of the credit is likely to be greater and the customer is required to make repayments for an extended period).

There may also be other factors which could influence how detailed a proportionate check should've been for a given application – including (but not limited to) any indications of borrower vulnerability and any foreseeable changes in future circumstances. I've kept all of this in mind when thinking about whether Tesco did what it needed to before agreeing to lend to Mr A in November 2014.

Tesco gathered some information from Mr A before it agreed the loan. It asked him for details of his income, and his normal expenditure, and identified that his net income was well above the cost of living threshold and had also recently increased due to an uplift in his monthly income.

Tesco also checked Mr A's credit file to assess how he was managing his finances, and the results don't appear to show that Mr A was facing any problems managing his money. His debt to income ratio was relatively low and did not raise concerns, and he had also maintained his first loan account well – making all payment to Tesco on time. There also doesn't appear to have been any adverse information found during the credit searches, such as defaults or delinquent accounts, so there was no indication of any significant repayment problems in the past. So I think the results of the credit check might reasonably have reassured Tesco about Mr A's financial circumstances.

Mr A says that he was using his credit card (also held with Tesco) to fund his gambling habit, which he says ought to have put it on notice that he was spending compulsively, such that it shouldn't have lent him the £25,000. But at the point Mr A applied for the loan, his credit card with Tesco had been open for less than a month and would've only shown a few transactions along with his initial balance transfer.

I can see from Mr A's October 2014 statements that there were five separate payments made to a gambling company, as well as two amounts being credited (which were presumably winnings). But these transactions were for relatively low amounts, and also spaced over several days from 24 October 2014 to 2 November 2014. And I don't think

Tesco ought to have realised from this activity alone that Mr A had a *problem* with gambling, rather than simply playing for entertainment.

Mr A also didn't tell Tesco about his gambling problem when applying for the loan – and neither have I seen any evidence to suggest that he made them aware of this at the time or asked for help. So, in the circumstances, I don't consider there was enough to put Tesco on notice that he was vulnerable and would likely use the loan to fund further gambling.

Given everything I've seen I'm not persuaded that Tesco has lent to Mr A irresponsibly.

My final decision

For the reasons given above, I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 25 February 2021.

Jack Ferris
Ombudsman