

The complaint

Mrs D says Tesco Personal Finance PLC, trading as Tesco Bank, irresponsibly lent to her.

What happened

Mrs D applied for a loan from Tesco Bank on 16 November 2019. It was approved on 23 November 2019 and was for £8,500 over 48 months. The monthly payment was £219.94 and the total repayable was £10,513.92. There remains an outstanding balance.

Mrs D says the loan was unaffordable for her, she was in a situation of persistent debt. She says she had to borrow and go without to make her repayments.

Our adjudicator upheld Mrs D's complaint. She said Tesco Bank's checks were reasonable and proportionate. But she thought the results showed it was likely the loan would not be sustainably affordable for Mrs D.

Tesco Bank disagreed with this assessment and asked for an ombudsman's review. It said the loan referred out for additional checks when Mrs D applied. These showed she had a joint account and so her living costs could be shared, leaving her with as much as £660 disposable income. Also the loan term wasn't that long and the interest rate was fixed reducing the risk.

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've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when considering Mrs D's complaint.

Tesco Bank needed to take reasonable steps to make sure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mrs D could afford to repay what she was being lent in a sustainable manner. This means without having to borrow to repay or suffering other adverse financial consequences. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts, Mrs D's income and expenditure and her credit history.

This means to reach my decision I need to decide if Tesco Bank carried out proportionate checks at the time of the application; if so, did it make a fair lending decision based on the results of its checks; and if not, what better checks would most likely have shown.

Tesco Bank asked for some information from Mrs D when she applied for the loan. This included her total net monthly income, her mortgage costs and her other existing credit commitments. It made an assumption about her living costs using national statistics. It then completed a credit check. It calculated she would have £17 monthly disposable income and so would be able to afford the loan based on the results of these checks.

I'm not wholly persuaded the checks were proportionate. Given the initial results and the term and value of the loan I think Tesco Bank ought to have done more to verify Mrs D's actual income and living costs. However, I won't comment further on this as even based on the information it did gather I don't think Tesco Bank made a fair lending decision. I'll explain why.

Tesco Bank understood Mrs D had a net monthly salary of £1,800 and additional monthly income of £385. It could see from her credit file that she had unsecured debt of £16,627. And that this required monthly repayments of £1,351 (assuming a 5% of balance to be repaid on her credit card debt). It knew she also had mortgage payments of £269. So I think it ought to have been clear to Tesco Bank that further increasing her monthly credit commitments would most likely not be sustainable – and there was a high risk she would have to borrow to make her repayments or suffer some other adverse financial consequences. The lending assessment it shared with this service shows it calculated Mrs D would have £17 disposable income – this should have further alerted it to the risk that the loan would likely not be sustainably affordable over a 4-year term. It has since said as Mrs D had a financial associate we should assume this would be much higher – as much as £660 – but it has not provided any data or evidence to support this assertion, nor is it what it captured in its lending assessment. Given the high proportion of monthly income Mrs D would need to just service her debt, not even to sustainably manage the revolving credit, I don't think it was responsible of Tesco Bank to lend to Mrs D.

It follows I think Tesco Bank was wrong to give the loan to Mrs D.

Putting things right

Mrs D should repay the capital as she has had the benefit of that money. But she has paid interest and charges on a loan that should not have been given to her. So Tesco Bank should:

- Remove all interest and charges from Mrs D's loan account and treat all repayments she has made as repayments of the capital.
- If reworking Mrs D's loan account results in her having effectively made payments above the original capital borrowed, then Tesco Bank should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement*.
- If reworking Mrs D's loan account leaves a capital balance outstanding Tesco Bank should try to agree an affordable repayment plan with Mrs D remembering its obligation to treat her fairly, and with forbearance if relevant.
- Remove any adverse information recorded on Mrs D's credit file in relation to the loan.

*HM Revenue & Customs requires Tesco Bank to deduct tax from this interest. Tesco Bank should give Mrs D a certificate showing how much tax it's deducted if she asks for one.

My final decision

I am upholding Mrs D's complaint. Tesco Personal Finance PLC, trading as Tesco Bank, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs D to accept or reject my decision before 20 January 2023.

Rebecca Connelley
Ombudsman