

Complaint

Mr L has complained that Tesco Personal Finance PLC (trading as “Tesco Bank”) provided him with an unaffordable loan.

Background

Tesco Bank provided Mr L with a loan for £15,000.00 in August 2018. The loan had an APR of 8.4% and the total amount to repay of £15,535.80, which included interest of £3,535.80 was due to be repaid in 60 monthly instalments of just under £310. One of our adjudicators looked at this complaint and she thought that Tesco Bank shouldn't have provided Mr L with his loan as reasonable and proportionate checks would have shown it that the loan was unaffordable for Mr L. Tesco Bank disagreed and asked for an ombudsman's decision.

My findings

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr L's complaint. Having carefully considered everything I've decided to uphold Mr L's complaint. I'll explain why in a little more detail.

Tesco Bank needed to make sure it didn't lend irresponsibly. In practice, what this means is that Tesco Bank needed to carry out proportionate checks to be able to understand whether Mr L could afford to repay any credit it provided.

Our website sets out what we typically think about when deciding whether a lender's checks were proportionate. Generally, we think it's reasonable for a lender's checks to be less thorough – 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.

As I understand it, Tesco Bank enquiries suggested that Mr L was employed and earning around £2,500.00 a month. Tesco Bank also says that Mr L was a homeowner with mortgage payments of £280. Tesco Bank carried out a credit check which showed that Mr L had just over £18,600.00 in unsecured debt of which just over £4,000.00 of this was on revolving credit accounts. In its view all of this information indicated that Mr L would be able to afford the monthly payments to his loan. However, I've noted that Tesco Bank obtained bank statements from Mr L and that these not only showed that he was regularly overdrawn (albeit that he returned to credit when he got paid) but that Mr L was making a significant amount of gambling transactions.

I note that Tesco Bank says Mr L's gambling wasn't enough to decline this application as Mr L didn't say that he had a problem and he's unlikely to have volunteered this information if he was asked. But I don't think that this was a reasonable given Mr L was gambling quite significant sums. And I think that Tesco Bank needed to better understand Mr L's financial position – especially bearing in mind the amount being advanced - before providing this loan to him. I think that if Tesco Bank had done this, it would more likely than not have discovered that Mr L was gambling significant sums of money and that this is what was responsible for his increasing indebtedness.

In these circumstances, I think that Tesco Bank ought to have realised that Mr L was simply unlikely to be able make the payments to this loan without experiencing adverse consequences or borrowing further. And as this is the case, I find that Tesco Bank's failure to properly look into Mr L's circumstances meant that it didn't act fairly and reasonably towards Mr L when it provided this loan to him. As Mr L paid interest, fees and charges on a loan Tesco Bank should never have provided to him, I'm satisfied that Mr L lost out because of what Tesco Bank did wrong. So I think that Tesco Bank needs to put things right.

Fair compensation – what Tesco Bank needs to do to put things right for Mr L

Overall and having considered everything, I think it is fair and reasonable for Tesco Bank to put things right for Mr L in the following way:

- refund all the interest, fees and charges Mr L paid on this loan;
- add interest at 8% per year simple on any interest, fees and charges paid from the date they were paid by Mr L to the date of settlement†;
- remove any adverse information recorded on Mr L's credit file as a result of this loan.

† HM Revenue & Customs requires Tesco Bank to take off tax from this interest. Tesco Bank must give Mr L a certificate showing how much tax it has taken off if he asks for one.

My final decision

For the reasons I've explained, I'm upholding Mr L's complaint. Tesco Personal Finance PLC should put things right in the way I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 10 March 2023.

Jeshen Narayanan
Ombudsman