

## **The complaint**

Miss K says Tesco Personal Finance PLC, trading as Tesco Bank, irresponsibly lent to her.

## **What happened**

Miss K took out a loan from Tesco Bank on 28 April 2017. It was for £29,000 over 94 months. The monthly payments were £523.62 and the total repayable was £49,220.28.

Miss K says Tesco Bank did not carry out proper checks, she was already struggling financially and was desperate for the loan. She has found it hard to make the repayments.

Our investigator issued two assessments; I will refer only to the second as that is the current view of this service. She upheld Miss K's complaint saying she did not think Tesco Bank had carried out proportionate checks and had it done so it would have seen the loan would not be sustainably affordable for Miss K.

Tesco Bank disagreed and asked for an ombudsman's review. It said, in summary, its data showed Miss K was not as heavily indebted as she suggested, and it had verified her information with two external sources. Miss K's total revolving debt was £1,733 so it seemed unlikely she had to make the minimum payments she has stated. Also, it could not have known Miss K was repaying her partner's loan. She had also declared she had no housing costs, despite saying more recently they were £150. It argues it is not fair to base our assessment on information from Miss K that she did not disclose at the time, or that would not have shown on a credit check.

## **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 Miss K'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 Miss K 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, Miss K'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 Miss K when she applied for the loan. This included her net monthly income, any rent or mortgage costs and any existing credit

commitments. It asked about the purpose of the loan which was a car. I note Miss K has told us this was not the case; it was to repay other debts. Tesco Bank made an assumption about Miss K's living costs using national statistics. It also completed a credit check to understand her credit history and existing commitments. It then asked for her last month's bank statement to check her salary, and concluded she would be able to afford the loan based on the results of these checks.

I am not persuaded these checks were proportionate. The monthly repayment was a high relative to Miss K's income and Tesco Bank needed to be sure she could sustainably meet this commitment for 94 months – and she already had almost £17,000 of unsecured debt.

However, I think that even based on the data it gathered Tesco Bank ought to have realised there was a risk the loan would not be sustainably affordable for Miss K. It knew her monthly income was £1,789.23 and that she was already making loan repayments of £384 a month. It allocated £52 for her revolving debt repayments – I would argue this number should be higher at around £86 if Miss K was to sustainably repay that debt. But that aside Tesco Bank lent to Miss K knowing it would mean she was spending around 55% of her income on her unsecured credit commitments. I think at that level it ought to have been concerned this would not be sustainable over such a long loan term.

Had Tesco Bank carried out further checks it would have found indicators to support this conclusion. Our investigator explained that reviewing Miss K's bank statements from the three months prior showed she did not have the disposable income Tesco Bank had estimated. More crucially, they show Miss K was persistently reliant on her overdraft and was typically only in credit for a day or two after she was paid. This meant any additional borrowing she took on would most likely be repaid from this facility – and so she would in essence be borrowing to repay this loan.

I have carefully considered Tesco Bank's comments about why the lending was responsible. I can see there wasn't recent adverse data on Miss K's credit file, but Tesco Bank needed to consider the likely impact of extending Miss K's indebtedness. I do agree with its point that it should not be expected to take into account a loan in someone else's name that Miss K was repaying, but that has not been a factor in my decision. My findings are based on the information available to Tesco Bank at the time, both through the checks it did and had it carried out better checks.

It follows, for the reasons set out above, I find it was wrong to give Miss K this loan.

### **Putting things right**

As I have concluded Tesco Bank should not have given the loan to Miss K, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But it's fair that Miss K should pay back the capital she borrowed as she has had the benefit of that money.

So, Tesco Bank should:

- Rework the loan account removing all interest, fees, charges and insurances (not already refunded) that have been applied.
- If the rework results in a credit balance, this should be refunded to Miss K along with 8% simple interest per year\* calculated from the date of each overpayment to the date of settlement. Tesco Bank should also remove all adverse information regarding this account from Miss K's credit file.

- Or, if after the rework there is still an outstanding balance, Tesco Bank should arrange an affordable repayment plan with Miss K for the remaining amount. Once Miss K has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

If Tesco has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

\*HM Revenue & Customs requires Tesco Bank to deduct tax from any award of interest. It must give Miss K a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting the tax.

### **My final decision**

I am upholding Miss K'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 Miss K to accept or reject my decision before 1 May 2023.

Rebecca Connelley  
**Ombudsman**