

The complaint

Miss H complains that Tesco Personal Finance PLC (Tesco Bank) was irresponsible in its lending to her.

Miss H is being represented by a family member but for ease of reference I have referred to Miss H throughout this decision.

What happened

In May 2018, Miss H was provided with a £25,000 loan by Tesco Bank. She says that adequate checks weren't undertaken before the loan was provided and that when she struggled with her repayments Tesco Bank wasn't helpful. Miss H says she was earning £25,000 a year at that time.

Tesco Bank issued its final response letter in February 2022. It didn't uphold Miss H's complaint. It said it received an internet application from Miss H on 30 April 2018, for a £25,000 loan. It said before providing the loan it carried out a credit check and also checked the information Miss H had provided against other sources. It said Miss H said she had a monthly income of £1,700 plus a carer's allowance of £400 and rent of £600. It provided details of the loan offer and asked Miss H to check the loan was affordable. It said Miss H signed the documents and the loan was provided on 2 May 2018.

Tesco Bank said that Miss H had offered a full and final settlement amount of £12,173 with no further impact on Miss H's credit file but it didn't accept this as full and final settlement offers were only reviewed once an account had been defaulted and terminated.

Miss H wasn't satisfied with Tesco Bank's response and referred her complaint to this service. Our investigator thought it would have been reasonable for Tesco Bank to have verified Miss H's financial circumstances before lending. She reviewed three months of Miss H's bank statements, and these showed her outgoings to be higher than her income and that her salary was lower than had been recorded. She thought that had Tesco Bank carried out proportionate checks it would have seen the lending wasn't affordable. Therefore she upheld this part of Miss H's complaint and recommended that all interest, fees and charges be refunded and once any outstanding balance had been cleared that any adverse information should be removed from Miss H's credit file

Our investigator noted the comments made about Tesco Bank not assisting Miss H when she experienced repayment issues during the Covid period. However, she thought that Tesco Bank had done enough during this time to support Miss H.

Tesco Bank didn't agree with our investigator's view. It didn't agree that further checks were required as it said its checks showed no issues noting Miss H had a low indebtedness score, and no existing lines of credit. It didn't think it proportionate to request Miss H's bank statements in this case. Tesco Bank asked if Miss H was in receipt of the carers allowance she had noted. It said that including this alongside the other information our investigator had noted still suggested the loan repayments were affordable.

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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website. I've had this approach in mind when considering what's fair and reasonable in the circumstances of this complaint.

As our investigator explained, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks a lender is required to carry out, it just needs to ensure the checks are proportionate when considering things like: the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances.

As part of the application process for the loan, Miss H provided information about her employment and income. She noted that she had a monthly net income of £1,700 a carers allowance of £400 and rental income of £600. She was asked about her housing costs and recorded monthly mortgage payments of £445. A credit card was recorded with a limit of £250 but no balance and a loan with repayments of £417. As well as gathering information through the application process, Tesco Bank carried out a credit check. This was used to assess Miss H's existing credit commitments and I can see a higher amount was noted from the credit reference search than suggested by Miss H's information about her loan and credit card. The credit check was also used to check Miss H's credit worthiness.

I have considered the information Tesco Bank gathered. I have seen the information received through its credit search (as well as a more recent credit file provided by Miss H) and I do not find that I can say the credit search should have raised concerns that meant the lending shouldn't have been provided. While I note Miss H had taken out a large loan two months prior to applying for the Tesco Bank loan (and I can see she had taken out previous loans and settled them early) she had noted the Tesco Bank loan was for refinancing other debt.

While I do not find Miss H's credit search raised any particular concerns about how she was managing her money, having considered the size and term of the loan and noting the size of the repayments, I think it would have been proportionate for Tesco Bank to have verified Miss H's income before lending. I do not find that Tesco Bank was required to request copies of Miss H's bank statements to do this, but I have used the information contained in this to assess what Tesco Bank would likely have found had it taken steps to verify Miss H's income.

Having looked through Miss H's bank statements these show her salary to be lower than declared in her application. Her average for the three months leading to the application was around £965. Additional to this Miss H was receiving rental income but again this was lower than she had declared - £400 rather than £600. Miss H's application includes an amount for a carers allowance however this isn't shown in her bank statements and having asked Miss H about this she has said that she wasn't receiving this. While I agree that Miss H had a responsibility to include accurate information on her application for the loan, I also think in this case Tesco Bank should have taken steps to verify the income figures provided. Had it done this it would have discovered Miss H's monthly income was lower than declared at around £1,364.

Given an income verification would have flagged discrepancies in the data recorded in Miss H's application I think this meant that further checks were then required. I cannot say for certain what Miss H would have declared had she been asked about her expenses but

looking through her bank statements these show outgoings for her mortgage (£445 as declared) as well as utilities, media services, council tax, insurances, memberships and other credit commitments. Taking into account that the loan repayments of £417 would no longer be required after the Tesco Bank loan was provided (as Miss H used this to repay the loan) I can see she had monthly outgoings before food, fuel and other general living costs and before the loan repayments to Tesco Bank of around £1,080. Taking these figures into account I do not find that the repayments due under the Tesco Bank loan, of around £406 should have been considered affordable.

Miss H also says that she wasn't provided with the support she should have been when she experienced difficulties making her repayments. I note the comments she has made about struggling to make her payments during Covid and I can see that she applied for payment breaks. While I can see from the case notes there were initially some issues with the payment break being applied action was taken to reverse any issues arising from this and I can see that the requested payment breaks were applied to Miss H's account. Following this period, I can see that Miss H's financial difficulties were explained to Tesco Bank and holds were placed on her account. Miss H asked for a reduced settlement amount and the process was explained. Therefore, while I understand this was a difficult time for Miss H I think, on balance, Tesco Bank did try to assist her when she was struggling to make her repayments.

Putting things right

Tesco Personal Finance PLC should rework the 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 H 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 H's credit file.

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

*HM Revenue & Customs requires Tesco Bank to deduct tax from any award of interest. It must give Miss H 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

My final decision is that Tesco Personal Finance PLC should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss H to accept or reject my decision before 7 July 2023.

Jane Archer
Ombudsman