

## **The complaint**

Mrs C complains that Tesco Personal Finance PLC ("Tesco") lent to her irresponsibly.

## **What happened**

Mrs C took out a loan with Tesco in August 2017. She borrowed £5,000 over 60 months to buy medical equipment for her disabled son. The total cost of the loan including interest was £5,523 and repayments were £92.05 a month.

Mrs C explains that she couldn't afford the credit and that Tesco shouldn't have lent to her. She had just separated from her husband and her entire income was derived from benefits including carer's allowance she received for her son. She was a single mother to three children and had no other income.

Tesco says it did all the necessary checks before it lent to Mrs C, and it didn't see anything which might make it think she couldn't afford the loan.

Our investigator considered that Mrs C's complaint should be upheld. They thought that Tesco hadn't acted fairly or responsibly on the outcome of its checks and if it had it wouldn't have lent to Mrs C. Our investigator thought that Tesco should write off the outstanding loan Mrs C agreed with this view.

Tesco didn't respond to the view at first. When it did, it objected to the suggested redress. It didn't comment on the substance of the decision.

As Tesco didn't agree the complaint has been passed to me to make a final decision.

## **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 considered Mrs C's complaint.

Having done so, I have come to the same conclusion as our investigator. I will explain why I have reached this decision.

Tesco 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 C could afford to repay what she was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts, how much borrowing Mrs C had elsewhere and Mrs C's income and expenditure. There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

Tesco explained that Mrs C applied for her loan online. The application was referred for manual review as Mrs C had said the loan was for 'other' (although Tesco later stated it would take no account of the reason for the loan). Its assessment team spoke with Mrs C who confirmed the loan was for medical equipment for her disabled son and that her income was made up of tax credits and disability living allowance. Tesco agreed the loan.

Tesco has provided a copy of the results of the other credit checks it made on Mrs C before it spoke to her. Mrs C declared an income of £1400 a month and rent of £300. It noted that Mrs C paid £13 a month for her other revolving credit repayments. It also noted that she had total unsecured debt of £2,369 of which the revolving balances accounted for £438. Its comments were *'Very good score, v low utilisation of revolving credit and CII. Low DTI. Easily passed affordability with no adverse info so straight accept.'*

Tesco says it would have been unreasonable to complete any further checks.

I disagree. While Mrs C's debt to income ratio appeared to be relatively low, Tesco had no understanding of the amount Mrs C was paying for her other credit and it had no idea of her essential expenditure. Tesco says it allowed £500 a month for Mrs C's essential expenditure. However, given Mrs C's circumstances and the unusual reason declared for requiring the loan, I think it was essential Tesco obtained an understanding of her actual expenditure. And given how Mrs C's income was entirely from benefits, some of which were directly related to the reason for her need for the loan, I think it was essential it varied her income too. So, I think Tesco didn't complete necessary and proportionate checks.

This doesn't mean I should automatically uphold Mrs C's complaint, though. I now have to consider whether, if Tesco had completed necessary and proportionate checks, it would have resulted in Tesco seeing information which may have changed its decision to lend to Mrs C.

While different checks may show different things I think it's reasonable in the circumstances to rely on evidence provided by Mrs C about her finances at the time. Mrs C has provided copies of her bank statements from the months leading up to the application.

These show that Mrs C's source of income was as stated – through tax credits and disability living allowance. She was using her overdraft facility extensively, never being in credit. She was regularly over £2,500 overdrawn and often over £3,000 overdrawn. She was already struggling financially and was relying on borrowing to meet her essential expenditure and her other credit commitments. Her bank statements showed little discretionary spending and it certainly did not account for Mrs C's difficulty in meeting her everyday expenses.

Given her caring responsibilities, which were particularly onerous, and her single-parent status it was unlikely Mrs C's financial circumstances would change for the better during the term of the loan. Mrs C was in a cycle of debt which, barring a significant and unlikely change of circumstances was never going to improve.

I am satisfied that had Tesco completed necessary and proportionate checks it would have realised that Mrs C would not be able to sustainably meet the repayments on the loan. I think Mrs C lost out as a result of Tesco's failure to complete those checks and to act on them fairly.

## **Putting things right**

Mrs C has not made any repayments towards the loan since August 2019. She has engaged at times with Tesco. Following Mrs C's initial complaint to Tesco about this, Tesco offered in 2022 to consider a repayment plan, potentially with a low or token repayment amount. Mrs C didn't agree to that and brought her complaint to this service. The payment plan would only have lasted for a finite period of time.

Mrs C has experienced further trauma in her life. Following her complaint to Tesco she suffered a significant and particularly distressing bereavement, the details of which I do not need to repeat here. This has caused her significant psychological injury from which she is likely to take considerable time to recover. Her bereavement and resulting mental health difficulties, combined with her already extremely difficult circumstances, make it even less likely that she will ever be in a position to repay the loan. While I appreciate Tesco has made some attempt to reduce the impact the debt has on Mrs C by offering to consider a payment plan, I don't think this goes far enough. Mrs C will be caught in a cycle of perpetual reviews of the payment plan when there is no realistic prospect of her ever making a significant impact on the debt. I think the lack of care taken in assessing whether Mrs C was able to sustainably repay the loan caused such difficulties for Mrs C that Tesco should go further than this service would ordinarily direct. To settle this complaint, I direct Tesco to write off the amount outstanding on the loan.

## **My final decision**

I have decided that Tesco Personal Finance PLC acted unfairly when it provided the loan to Mrs C. To put things right I direct that Tesco Personal Finance PLC write off the outstanding loan.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or reject my decision before 13 September 2023.

Sally Allbeury  
**Ombudsman**