DRN-4374262

The complaint

Mr L complains that Tesco Personal Finance PLC (trading as Tesco Bank) was irresponsible to lend to him.

What happened

Mr L was approved for two loans with Tesco between March 2019 and August 2021 as follows:

Loan	Date	Amount	Term	Repayment	Due	Repaid
1	22 Mar 2019	£12,000	62m	£252.96	1 Jun 2024	16 Aug 2021 With loan 2
2	16 Aug 2021	£12,645.46	38m	£393.01	1 Nov 2024	N/A

Mr L says that he shouldn't have been approved for either loan due to his financial circumstances and that he felt pressurised to come out of his repayment plan. He adds that the lending has affected his mental health and he is now in a debt management plan as Tesco would not accept his offer of £100 per month.

Tesco says it looked at information held by credit reference agencies and checked the information provided by Mr L before approving the lending. It says it was contacted by Mr L in September 2022 concerning the cost of living and managing priority bills. Tesco says it agreed a repayment plan at £200 per month for three months and that Mr L paid his contractual payment in January 2023 before raising his complaint about irresponsible lending. It says this indicated Mr L's ability to make the repayments was affected by a change in circumstances rather than irresponsible lending.

Our investigator did not recommend the complaint should be upheld. She wasn't satisfied that Tesco's checks went far enough, but she found that proportionate checks were unlikely to have caused Tesco to make a different lending decision.

Mr L requested an ombudsman's 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.

I need to take into account the relevant rules, guidance and good industry practice, as outlined on our website.

Bearing this in mind, in coming to a decision on Mr L's case, I have considered the following questions:

- Did Tesco complete reasonable and proportionate checks when assessing Mr L's loan applications to satisfy itself that he would be able to repay the loans in a sustainable way?
    - If not, what would reasonable and proportionate checks have shown?
- Did Tesco make a fair lending decision?
- Did Tesco act unfairly or unreasonably in some other way?

<u>Loan 1</u>

When Mr L applied for loan 1, Tesco found out the following information about his circumstances:

- Mr L was single, had one dependant, was living with his parents and was employed full time;
- The purpose of the loan was to re-finance existing debt;
- His declared monthly income was £1,715 with guaranteed overtime at an additional £186;
- He had no negative information on his credit file aside from one delinquent account;
- Credit agencies showed up to £13,076 of unsecured debt, with £431 monthly loan repayments;
- Based on its calculations, Mr L had £770 of disposable income after the new loan repayment.

However, I'm not satisfied the checks went far enough. I say that because:

- The loan term was over five years and Tesco needed to be confident that the repayments were sustainable over that period;
- I can't see that Tesco verified Mr L's declared income;
- Tesco had gathered information from two credit agencies, but used the lower debt figure in its analysis;
- Mr L's existing credit commitments, based on the higher figure, were about 23% of his declared income. This increased to 37% with the new lending, although I accept Mr L said he planned to re-finance existing debt;
- Tesco's checks showed Mr L had a delinquent account on his credit file.

So I've had a look at Mr L's bank accounts as a reasonable proxy for what proportionate checks may have found:

- These show Mr L's regular monthly income was £1,715, but he earned at least another £500 per month in the lead up to the loan;
- The higher credit commitment was the correct one as Mr L had recently taken out a new loan;
- Mr L appeared to make regular payments of around £400 per month to a family member, possibly for his share of rent and bills, and a further £300 per month towards a dependant;

- Combined repayments on two loans were £431;
- There was other regular expenditure including the repayment of a friend's credit card, breakdown cover and mobile phone costs of around £200;

This left Mr L with almost £900 before the new loan repayment and any other expenditure on, for example, food and travel. I can also see that Mr L did indeed repay the existing loans, using £11,500 of the £12,000, so his expenditure going forward would have been reduced by the £431 repayments.

In summary, I find that, even if Tesco had carried out proportionate checks for loan 1, it was likely to have concluded the lending was sustainable.

<u>Loan 2</u>

Mr L used £7,645.46 of loan 2 to repay loan 1 and borrowed a further £5,000.

Tesco's checks showed:

- Mr L was single, had one dependant, was living with his parents and was employed full time;
- His declared monthly income was £2,200;
- He had no negative information on his credit file;
- Credit agencies showed up to £25,763 of unsecured debt, with up to £6,005 on credit cards and up to £633 of monthly loan repayments;
- Based on its calculations, Mr L had £408 of disposable income after the new loan repayment.

Again, I'm not satisfied the checks went far enough. I say that because:

- The loan term was over three years and Tesco needed to be confident that the repayments were sustainable over that period;
- I can't see that Tesco verified Mr L's declared income;
- Tesco had gathered information from two credit agencies, but used the lower loan repayment figure in its analysis – the numbers differed by almost £400;
- Mr L's existing credit commitments, excluding loan 1 and based on the higher figure, were at least 25% of his declared income. This increased to 43% with the new lending.
- Mr L's total debt had increased significantly since loan 1, despite having repaid the two loans he had at the time.

So, I've had a look at Mr L's bank accounts for the period leading up to loan 2 and found:

- These show Mr L's regular monthly income was roughly in line with the £2,200 he'd declared;
- The higher credit commitment was the correct one as I have seen a copy of Mr L's credit file and the relevant repayments on his bank statements;

- He appeared to make regular payments of around £500 per month to a family member, possibly for his share of rent and bills;
- Repayments on a loan, two credit cards and a further credit account were at least £700 per month;
- There was other regular expenditure on car tax and insurance, and a mobile phone, totalling under £100;
- I couldn't see any expenditure on fuel, but Mr L withdrew about £500 in cash each month;
- Mr L had taken out £190 in short-term credit from a high-cost lender in the week prior to the loan application, some of which remained outstanding;

This left Mr L with over £500 each month after he'd made the repayment, from which he would need to pay for travel and other regular expenditure. I also note Mr L used some of the additional £5,000 to settle the larger of the two credit card balances, reducing his credit commitment by at least £100 per month.

On that basis I can't conclude that Tesco was irresponsible to have approved loan 2, but I do accept that he is now in financial difficulties and, having seen some of his later bank statements, this appears to have become an issue during 2022.

In summary, whilst I do not uphold this complaint, and I haven't seen any evidence to show Tesco acted unreasonably in any other way, Tesco should respond to Mr L's financial difficulties positively and sympathetically and attempt to arrange a mutually agreeable repayment plan for the outstanding balance.

My final decision

My decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr L to accept or reject my decision before 28 November 2023.

Amanda Williams
Ombudsman