

## **The complaint**

Mr B complains that Tesco Personal Finance PLC trading as Tesco Bank was irresponsible in its lending to him.

## **What happened**

Mr B was provided with a loan from Tesco Bank in 2009 and then he re-borrowed up until 2018 due to ongoing financial difficulties. He says he had a spiralling amount of debt with overdrafts, store cards and credit cards including two credit cards from Tesco Bank. He says that given the amount of debt he had Tesco Bank was irresponsible in its lending to him.

Tesco Bank noted that of the four loans and two credit cards only loan 4 and the second credit card were provided within six years of Mr B making his complaint. A jurisdiction decision was issued saying that we could consider the merits of this complaint in full.

Tesco Bank said that it had carried out reasonable checks before the lending was provided including considering Mr B's previous repayment history. It said that these showed no suggestion that Mr B was struggling financially.

Our investigator partially upheld this complaint. She noted that Tesco Bank had provided Mr B with four loans and two credit cards. She didn't think it unreasonable that loans 1 and 2 had been lent but thought that reasonable checks would have shown that loans 3 and 4 shouldn't have been provided. Regarding the credit cards, our investigator noted that the account opened in March 2017 was repaid in full the following month and so no interest and charges were applied so she didn't investigate this account further. In regard to the 2014 credit card account, she didn't think that the evidence suggested that checks would have found this lending to have been unaffordable.

Mr B accepted our investigator's view. Tesco Bank didn't agree that loans 3 and 4 were lent irresponsibly. It said that based on its checks Mr B had a fair disposable income left after meeting his financial commitments. It said that as Mr B was a long-standing customer it not only had the information from its affordability checks but also Mr B's account history which showed he had managed his account well. It said that Mr B's financial circumstances changed after the lending had been provided and that it couldn't have predicted this.

## **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.

The relevant rules don't set out specific checks that a business must complete to assess creditworthiness. However, the firm should take into account the customer's income (over the full term of the loan) and their ongoing expenditure for living expenses and other debts.

Whilst it is down to the firm to decide what specific checks it wishes to carry out these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments and the total cost of the credit.

Loans 1 to 3 were all provided more than six years before Mr B raised his complaint. A decision has been issued to say these are loans I can consider. But, given the time that has passed since these loans were provided, Tesco Bank hasn't been able to provide evidence of the checks it undertook before providing loans 1 and 2. I do not find this unreasonable. I have therefore considered these loans, based on the information Mr B has provided about his financial circumstances at the time and what I think reasonable checks would likely have shown.

Tesco Bank has provided results from the checks it undertook before providing loans 3 and 4 and I have considered this.

#### *Loan 1: December 2009*

Mr B was provided with a £7,500 loan in December 2009. The loan was repayable through monthly repayments of around £183. Before providing this loan, I think it would have been reasonable for Tesco Bank to have got a clear understanding of Mr B's financial circumstances, specifically his income and expenses including his other credit commitments at the time.

Mr B has provided copies of his bank statements from his joint account for the months leading up to this loan. These show he had an average monthly income of over £1,300 (and there was a second income being paid into the joint account). The monthly mortgage payments from the account were around £405 and other regular direct debit payments for costs such as utilities, council tax, insurances, credit commitments and other committed expenses were around £650. As the information provided is from a joint account and the additional income was a similar amount as Mr B's monthly income I think it reasonable to assess the mortgage payments and other household expenses as being 50% attributable to Mr B. Based on the information I have seen, and noting this was Mr B's first loan from Tesco Bank, I do not find I have enough to say that this loan with repayments of around £183, should have appeared unaffordable.

Therefore, I do not uphold this complaint in regard to loan 1.

#### *Loan 2: September 2012*

Mr B was provided with a £7,793.67 loan in September 2012. The loan was repayable over 48 months with monthly repayments of around £181. This loan was used in part to repay the outstanding balance on the previous loan and as it was for a similar amount and had similar monthly repayments, I find that as Mr B had maintained his repayments on the previous loan this gave a positive indicator that he would be able to maintain the repayments on this loan. However, as this loan meant that Mr B's indebtedness was now for a longer period of time, Tesco Bank was required to carry out checks to ensure the lending was sustainably affordable over the loan term.

Having looked through Mr B's statements for the months leading up to the loan his average monthly income was around £2,300 and there was a second income coming into the account averaging around £1,100. The account shows regular direct debits for the mortgage, other housing costs, utilities, insurances, credit commitments and other regular expenses such as food and travel totalling around £2,300. The statements also show that there are more payments being made to other credit commitments suggesting that a credit check would have shown Mr B's indebtedness to have increased since the previous loan. That said,

based on the information I have seen, I do not find I have enough to say that this loan shouldn't have been provided.

Therefore, I do not uphold this complaint in regard to loan 2.

#### *Loan 3: January 2015*

Mr B was provided with a £10,000 loan in January 2015. The loan was repayable over 50 months with 48 monthly repayments of around £245. This loan appears to have been used in part to repay the outstanding balance on the previous loan.

This was the second time that Mr B had repaid a previous loan with a new loan from Tesco Bank which could raise concerns about Mr B's reliance on the debt. This loan was for a larger amount than loan 2 and the repayments were for a higher amount and so I find that Tesco Bank was required to carry out thorough checks to ensure that this new loan would be sustainably affordable over the loan term.

Tesco Bank has provided copies of the application information and credit check it undertook before providing loan 3. These record Mr B's monthly income as £1,950, this is slightly higher than shown in Mr B's bank statements which suggest his average monthly income was around £1,770. The credit report noted Mr B's total unsecured debt as around £22,650 of which around £10,600 was loans and the rest revolving credit balances. Additional to this he had an outstanding mortgage of around £72,000. I find this level of debt should have raised concerns.

Mr B's joint bank statements for the months leading up to this loan show that the expenses exceeded income for each month resulting in the account going further into overdraft. Having considered the level of debt shown by Tesco Bank's credit check, that Mr B's income was lower than identified, his increasing overdraft and noting the proportion of his income already used to pay credit commitments, I do not find that this loan should have been considered sustainably affordable for Mr B.

Therefore, I uphold this complaint in regard to loan 3.

#### *Loan 4: April 2018*

Mr B was provided with a £20,000 loan in April 2018 with monthly repayments of around £422. This loan appears to have been used in part to repay the outstanding balance on the previous loan. As I upheld this complaint in regard to loan 3, and loan 4 was for a much larger amount with significantly larger monthly payments, I would only be able to say this loan should have been considered sustainably affordable if Mr B's financial circumstances had significantly improved since loan 3. While Mr B's recorded net monthly income had increased since loan 3, and this is supported by his statements, his unsecured debts had also increased. These were recorded as £32,200, a substantial increase since the previous loan. I find this shows that Mr B's financial situation was deteriorating further with his reliance on debt increasing. So, I do not find that this loan should have been considered sustainably affordable.

Therefore, I uphold this complaint in regard to loan 4.

#### *Credit card provided October 2014*

Mr B was provided with a credit card account in October 2014 with an initial credit limit of £1,000 and no credit limit increases were applied to the account. While I can see from the bank statements Mr B has provided that he was reliant on his overdraft at the time, noting

the credit limit provided, the repayments that would be due as a result of this and Mr B's income, I do not find that I have enough evidence to say this credit shouldn't have been provided.

#### *Credit card provided March 2017*

Mr B was provided with a credit card account with a credit limit of £800 in March 2017. Tesco Bank has explained that this account was repaid in full the following month and I haven't seen any evidence that any interest or charges were applied. Therefore, I agree with our investigator that even if the complaint was upheld in regard to this lending there would have been no detriment to Mr B and so I haven't considered this further.

In conclusion, I agree with our investigator that Mr B's complaint should be upheld in regard to loans 3 and 4.

#### **Putting things right**

Tesco Bank should:

- add up the total amount of money Mr B received as a result of having been given loans 3 and 4. The repayments Mr B made should be deducted from this amount.
  - If this results in Mr B having paid more than he received, then any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement).\*
  - If any capital balance remains outstanding, then Tesco Bank should attempt to arrange an affordable/suitable payment plan with Mr B.
- remove any negative information recorded on Mr B's credit file regarding loan 3.
- remove any negative information recorded on Mr B's credit file regarding loan 4 once any outstanding balance has been cleared.

\*HM Revenue & Customs requires Tesco Bank to take off tax from this interest. Tesco Bank must give Mr B a certificate showing how much tax it's taken off if he asks for one.

#### **My final decision**

My final decision is that I uphold this complaint. Tesco Personal Finance PLC trading as Tesco Bank 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 Mr B to accept or reject my decision before 14 December 2023.

Jane Archer  
**Ombudsman**