

The complaint

Mrs G complains that Tesco Personal Finance PLC trading as Tesco Bank irresponsibly agreed a loan for her.

What happened

Tesco agreed a loan of £14,999.29 for Mrs G in January 2019. The total amount owed was £18,528.60 to be repaid at £308.81 a month over 5 years. £3,000 of the loan was used to repay an existing debt with Tesco and the remainder was paid directly to Mrs G.

Mrs G complained that Tesco was irresponsible to have agreed a loan for her. She said that it agreed the loan without properly considering her financial situation and was negligent in allowing her to take on such a large debt. I understand that Mrs G made her repayments until March 2023 when she lost her job. She fell behind on all her repayments and is now working with a national charity to help manage her debts.

Tesco didn't agree that it had lent irresponsibly. It told Mrs G that in addition to checking the information she provided in her application form it also gathered information from credit reference agencies. Tesco said it had no concerns regarding her application and her loan was approved. Tesco also said that Mrs G had made all her repayments until her circumstances changed and noted that it had declined another loan application from her in April 2021.

Mrs G was unhappy with this response and referred her complaint to us. Our investigator looked into her complaint but didn't recommend that it be upheld. They didn't have enough information to say that Tesco should have gone further in its checks but, even had it done so, it would still have offered Mrs G the loan because it seemed from the information on her bank statements that she would be able to afford the repayments.

Mrs G didn't agree with this recommendation and asked for the complaint to come to an ombudsman to decide. It came to me and I issued a provisional decision on 19 October 2023 explaining why I didn't plan to uphold Mrs G's complaint. I allowed time for either party to comment on what I'd said or provide any new information they wished me to consider when making my final decision. I've had no response from either party.

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.

Having reviewed everything again and having no new information to consider, I see no reason to depart from my provisional conclusions and so I am not upholding Mrs G's complaint. I'll set out my findings and conclusions again in this final decision.

As before, I've also had regard to the regulator's rules and guidance on responsible lending (set out in its consumer credit handbook – CONC) which lenders, such as Tesco, need to

abide by. Tesco will be aware of these, and our approach to this type of lending is set out on our website, so I won't refer to the regulations in detail here but will summarise them.

Before entering into a credit agreement, Tesco needed to check that Mrs G could afford to meet her repayments out of her usual means for the term of the loan, without having to borrow further and without experiencing financial difficulty or other adverse consequences. The checks needed to be proportionate to the nature of the credit (the amount borrowed, for example) and to Mrs G's circumstances and Tesco needed to have proper regard to the outcome of its checks in respect of affordability risk.

Ultimately, Tesco needed to treat Mrs G fairly and take full account of her interests when making its lending decision. It would not be lending fairly if "it targeted customers with regulated credit agreements which are unsuitable for them, by virtue of their indebtedness, poor credit history, age, health, disability or any other reason."

My considerations are did Tesco carry out a proportionate check before lending to Mrs G and, if not, what would such a check have shown? Was the loan suitable for Mrs G and did Tesco make a fair lending decision?

Tesco provided the information it relied on when making its lending decision which included Mrs G's application and summary information from her credit file. Mrs G said her monthly income was £3,065 and the credit file information Tesco relied on showed that Mrs G's existing unsecured debt amounted to £26,494. This comprised an existing Tesco loan balance of £3,625 with repayments of £279 a month, and revolving credit balances of £22,869 with repayments of £686.

Tesco told Mrs G in its final response that there was no obligation on it to obtain evidence of her income based on the other checks it carried out. I'm afraid I don't wholly agree with Tesco on this point. The regulations at the time stated that it wasn't generally sufficient to rely solely on a customer's statement of current income in a creditworthiness assessment. Agreeing this loan with repayments of £309 potentially committed Mrs G to paying almost £1,000 a month towards her debts (this loan plus her existing revolving credit payments) which was around a third of her stated income. I think it would have been proportionate for Tesco to have verified the income figure it relied on.

I think it would also have been reasonable and proportionate for Tesco to have found out what Mrs G's usual expenses were in order to check that she'd be able to meet her repayments for the loan without adverse impacts over the course of the loan term. I understand that it considered national statistical datasets to estimate a figure. However, Mrs G was taking out a £15,000 loan repayable over five years, which was a relatively considerable commitment on top of her existing non-Tesco debts of £23,000. The purpose of the loan was to refinance her Tesco debt with a settlement figure of around £3,000. This left £12,000 capital, which might have been to consolidate other debt but I haven't seen any evidence that this was discussed with Mrs G.

Mrs G provided us with her bank statements from the time. To be clear I'm not suggesting this is the information Tesco should have relied on but I think it's reasonable for me to rely on it to understand what a proportionate check was likely to have revealed. I can see from the statements that Mrs G's income was slightly lower than she'd said at around £2,890 a month. She transferred a regular amount of £83 into the account which I've assumed was monthly child benefit payment so altogether she had an income of around £2,975. I've estimated based on identifiable transactions that Mrs G's usual household costs including her mortgage payment came to around £1,200 and other costs such as food, fuel and child-related costs came to around £500. This potentially left Mrs G with around £1,275 to meet her loan repayments and repay her other outstanding debt. I think Tesco would have

found the loan repayments affordable for Mrs G, even had it carried out further checks before lending to her and wouldn't have declined her application on this basis.

I have also considered whether Tesco made a fair lending decision here even though it seems that the loan repayments would be affordable for Mrs G on a 'pounds and pence' basis. There wasn't any adverse information on the credit file information Tesco provided, but while Mrs G might have been managing to service her debts successfully (including her existing loan with Tesco) it doesn't seem to me that she was managing to make inroads into clearing it, given her earnings weren't taking her out of her overdraft of £4,500 which she was fully utilising. I think it's fair to say that Mrs G was overindebted at this point – she had outstanding debts of around £31,000 altogether, most of which was revolving credit. While Mrs G may have been able to meet her loan repayments, this loan was potentially unsuitable for her given her high level of existing debt and it clearly increased the amount she owed in the short term.

As mentioned, Mrs G used all of the loan capital towards her existing debts and I think she would have told Tesco she intended to do this, had it asked. This left Mrs G with her new Tesco loan of around £18,500 with monthly repayments of £309, credit card balances of around £11,000 and her £4,500 overdraft going forwards. I can see that Mrs G met her repayments for the loan on time for four years until her circumstances changed and is now in an arrangement to pay the outstanding balance.

I think agreeing this loan was more likely than not going to reduce Mrs G's monthly repayments on debt. It more than halved her revolving credit balances; the loan repayment was around £30 more a month than her existing Tesco loan, a relatively low increase, and I'm not aware that she had any other loans. I appreciate Mrs G took on more debt in the following years and is now working with a national debt charity to help her manage everything, but I don't think this was foreseeable by Tesco at the time. Having considered this point carefully, I've decided that Tesco didn't make an unfair lending decision in this instance.

Mrs G has shared with us that losing her job and dealing with her debts has been an extremely stressful experience for her and that she is very unwell. I am very sorry to hear how difficult things have been, and continue to be, for Mrs G and that I can't provide the outcome she was hoping for. Taking everything into account, I can't find that Tesco lent irresponsibly on this occasion and I am not upholding her complaint.

My final decision

For the reasons I've set out above I am not upholding Mrs G's complaint about Tesco Personal Finance PLC trading as Tesco Bank.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs G to accept or reject my decision before 29 December 2023.

Michelle Boundy
Ombudsman