

The complaint

Mrs L complains that Tesco Personal Finance PLC trading as Tesco Bank irresponsibly gave her a fixed sum loan agreement she couldn't afford to repay.

What happened

In June 2019, Mrs L applied for a personal loan with Tesco Bank. She said the loan was needed to purchase a car. She was given a loan for £6,000. She was required to pay 36 monthly repayments of £185.32. The total repayable was £6,671.52. The loan was settled early in March 2022.

Mrs L complained to Tesco Bank to say that it had irresponsibly given her the loan. She said that she had a gambling problem at the time of the application, was in her overdraft and had a number of creditors. She considered that appropriate affordability checks would have revealed this at the point of application and led Tesco Bank not to lend to her. Tesco Bank didn't uphold her complaint and considered it had acted fairly when lending to her.

I sent Mrs L and Tesco Bank my provisional decision on 6 December 2023. I explained why I didn't think the complaint should be upheld. I said:

Prior to lending to Mrs L, Tesco Bank were required to complete proportionate affordability checks to ensure she could afford to repay the borrowing without difficulty. What is considered proportionate will vary with each lending decision as there isn't a one-size-fits-all approach. When deciding what checks would be proportionate, Tesco Bank needed to take into consideration factors such as (but not limited to): the amount borrowed, the total repayable, the term of the loan, the size of the repayments and Mrs L's circumstances.

As part of the application Mrs L declared that she was employed and earned a monthly income of around £1,600. She also declared a monthly mortgage commitment of £300. Tesco Bank also completed a credit check which showed that in addition to her mortgage, Mrs L had around £20,000 in existing loan commitments and around £1,300 in credit card debt. The credit check showed that Mrs L had no history of repayment difficulty with her existing debts.

Tesco Bank's own checks showed that Mrs L was repaying around £440 per month towards her existing unsecured credit commitments. When adding the new Tesco Bank loan repayment and her share of the mortgage payment, Mrs L would be repaying around £920 each month towards secured and unsecured debt. As Tesco Bank believed Mrs L had an income of £1,600, I think this ought to have caused it some concern about her ability to meet all of her other essential living costs. I therefore think Tesco Bank ought to have completed more thorough affordability checks than it did before lending to her.

I think it would have been proportionate for Tesco Bank to have verified Mrs L's income in some way and to ask her more about her regular committed expenditure.

I can't be sure what information and evidence Tesco Bank would have asked for or what Mrs L would have disclosed. I've therefore relied on copies of Mrs L's bank statements from around the time of the lending. I think these give a good indication of what Tesco Bank would likely have found out if it had sought to verify Mrs L's income and asked her about her regular committed expenditure.

I'm not suggesting Tesco Bank needed to manually review Mrs L's bank statements. I don't think its initial affordability checks revealed such significant concerns about her circumstances that would have made it reasonable and proportionate for it to have done any manual review of statements. However, I think the information contained in the statements is a good indication of what Tesco Bank would likely have uncovered if it carried out proportionate checks.

Mrs L's income appears to have been lower than the £1,600 per month Tesco Bank had noted on the application. She was earning around £1,400 each month. I've seen that her contribution towards the combined essential household bills (including the mortgage) was around £500 each month. When taking into account her other existing credit commitments and the new Tesco Bank loan, this would have appeared to still leave her with sufficient disposable income to meet other essential living costs without difficulty. I say this because it would have left her with around £300 each month for food, travel and other essential costs. As her partner was also contributing towards household essentials, this would have appeared sufficient. I therefore don't think that more thorough affordability checks would likely have led to a different lending decision.

I note Mrs L says she was gambling substantial amounts each month. She's provided copies of bank statements for a different current account to demonstrate this. While I accept that Mrs L's gambling was significant, I don't think Tesco Bank would reasonably have been aware of it. As I've said above, I don't think it needed to complete a manual review of her bank statements as part of proportionate affordability checks.

But, even if it had, I would only have expected it to review the statements which showed her income and essential outgoings. Those statements didn't show any gambling transactions. While they did show a large amount of transfers to Mrs L's other account (from which the gambling took place), I can't say that it would have been reasonable or proportionate for Tesco Bank to have insisted on seeing statements for that other account before lending to her. It isn't unusual for customers to transfer sums between accounts regularly and if it could already account for her regular income and expenditure, there would be no reason to pry further unnecessarily.

Lastly, Mrs L says that she was consistently in her overdraft and that this ought to have shown she was struggling. While one of her current accounts appears to have been overdrawn regularly, her other two accounts weren't. Her usage of the overdraft facility wasn't excessive when compared to her income. As I've set out above, more detailed affordability checks would likely have shown she had disposable income each month, which would have included the ability to repay her overdraft borrowing over the short to medium term. I therefore don't think her overdraft usage should have caused Tesco Bank to reach a different lending decision.

For all these reasons I don't think Tesco Bank acted unfairly when it granted the loan to Mrs L. If Mrs L is struggling to repay the loan she should discuss repayment options with Tesco Bank and I remind it of its obligations to treat her fairly if she is in financial difficulty.

Tesco Bank accepted my provisional decision and had nothing further to add. Mrs L didn't respond.

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.

As neither party has provided any further comments or evidence, I've seen no reason to reach a different outcome to the one I reached in my provisional decision. I therefore don't think Tesco Bank acted unfairly or unreasonably when it provided Mrs L with the loan in 2019.

My final decision

For the reasons given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs L to accept or reject my decision before 30 January 2024.

Tero Hiltunen
Ombudsman