

## **The complaint**

Mrs F complains Tesco Personal Finance plc trading as Tesco Bank (Tesco) acted irresponsibly when it approved a loan for her.

## **What happened**

Mrs F says in November 2018, she applied to Tesco for a loan of £15,000 repayable over five years. Mrs F says it was irresponsible of Tesco to provide a loan for this amount as she was already heavily in debt elsewhere and had recently taken out a large refinance loan, which Tesco should have been aware of if it had carried out a more thorough review of her finances. Mrs F says at the time she applied for the loan she was advised to input on her application her recent average monthly income, but this took into account a large annual bonus which wasn't guaranteed.

Mrs F says if Tesco had checked her bank statements it would have shown her net monthly income was much lower and the loan would have been unaffordable.

Tesco says it assessed the loan application on the information Mrs F provided, along with credit reference agency data and its own internal lending criteria and based on this it was happy to provide the loan requested. Tesco says it relies on the information provided by its customers to be truthful and once it became aware of Mrs F's circumstances, it offered affordable repayment arrangements. Tesco feels it acted fairly here.

Mrs F wasn't happy with Tesco's response and referred the matter to this service.

The investigator looked at all the available information but didn't uphold the complaint. The investigator felt given the size and term of the loan, Tesco should have asked for further information from Mrs F before agreeing the loan. That said the investigator says even if Tesco had received that information, based on what was available, he felt it would have still in all likelihood have approved the loan as it showed as being affordable and therefore it hadn't acted irresponsibly.

Mrs F didn't agree with the investigator's view and asked for the matter to be referred to an ombudsman for a final decision.

I sent both sides a provisional decision, where I said :

I've considered all of the evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having done so, I have come to a different outcome to that of the investigator and I will explain how I have come to my decision.

I can see Mrs F has experienced some financial issues and this must have been a difficult time for her. When looking at this complaint I will consider if Tesco carried out sufficient checks before it provided the £15,000 loan to Mrs F.

Both parties have provided this service with comprehensive details of the events here, but I

won't be commenting on every point made – that's not to say I haven't considered everything that's been said - I have, it's just that I don't feel it's necessary in order to come to a full and impartial decision here.

Mrs F's complaint centres around the fact Tesco would have established the loan of £15,000 was unaffordable, if it had carried out more comprehensive checks on her finances and she seems to recall when she submitted the application she was informed by Tesco, to input an average monthly income figure on her application form.

Mrs F claims she was advised by Tesco what to put in her application form regarding her income, but I can see no evidence of that as her application form was completed online and there's no record of Tesco receiving any calls from Mrs F at that time. It's also difficult to understand why an employee of Tesco dealing with loan applications would advise or tell Mrs F to input anything other than her correct income levels. It remains Mrs F's responsibility to accurately inform Tesco of her monthly income on her loan application and not an average based on say recent income levels.

That said, the first thing to say here is there is no set rules of what checks banks like Tesco must undertake when looking to provide loans to its customers, other than these are proportionate and take into account the sustainability and affordability of such a commitment. It's fair to say the higher the loan amount and the longer the duration of such loans, the checks should then be more comprehensive.

Here, I can see Tesco have relied on the information provided by Mrs F and carried out external credit checks and internal credit affordability modelling, before approving the loan. While I can understand this may well have been sufficient for a smaller loan over say a year or two, there are some triggers here that suggest further investigation into affordability should have been considered.

I say this because on the notes to its own assessment, Tesco highlighted that - utilisation of revolving credit was high, debt to income scored low and indebtedness was on the high end of tolerance. In addition to this Mrs F on her loan application placed her employment status as self employed and while that on its own wouldn't necessarily mean the loan would be declined, I would have thought given what Tesco already knew about levels of her external debt, it would have been sensible to have understood more about the sustainability of that self- employed income.

In fact, it's my understanding that loan applications for banks like Tesco for self-employed individuals, may be subject to a different set of lending assessment criteria to get a clearer understanding of sustainability and affordability.

What is clear is Tesco decided to go ahead without any further checks here and on balance I feel like the investigator, further checks should have been carried out. Where I disagree with the investigator is whether or not Tesco would have then simply asked for the last three months bank statements and concluded the loan was still affordable.

This was a loan for £15,000 over five years with a monthly commitment in excess of £300 and given the already accepted relatively high level of external debt by Tesco and the added knowledge Mrs F's income was based on self-employment, that might be less certain, it would have been prudent for Tesco to check for the sustainability of that income. It's reasonable to say if Tesco had carried out such checks, in all likelihood it would have led to other information about Mrs F's true financial position and in all probability put in doubt the affordability of the loan.

With that in mind, I propose Tesco refund all interest and charges on the loan account in

permanent reduction to the loan and any remaining debt is repayable based on Mrs F's current financial circumstances.

While Tesco will be disappointed with my decision, I am satisfied this is a fair outcome here.

Both Mrs F and Tesco responded to my provisional decision, so the case has been passed back to me to make a final decision.

I gave both Mrs F and Tesco until 8 January 2024 to accept or reject my provisional decision. Mrs F accepted my provisional decision but added she wanted her credit file to be corrected. Mrs F also provided this service with back dated bank statements to support her argument. Tesco did not agree with my provisional decision and sent further information for me to consider.

I sent both sides a provisional decision, where I said :

*I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.*

*Having done so, I have now come to a different outcome to my provisional decision, and I will explain how I have come to my decision.*

*Before I come onto the information contained in the bank statements Mrs F provided, I should make clear that this service would only direct the removal of any adverse information from her credit file, once all the borrowing had been fully repaid and only if the borrowing was considered to be irresponsibly lent – but having reviewed the information now presented here I don't think it has and I will explain why.*

*The first thing to say here is my initial provisional decision was predicated on the basis that Tesco should have taken steps to check Mrs F's income levels were sustainable given the loan amount, term and the fact she highlighted she was self employed and its own internal assessment had put her income to debt on the low side. Tesco have provided further information that shows on the application form Mrs F would have had the opportunity to declare what portion of her income was commission based but she failed to do that. Additionally, Tesco have also made the point there's no "rule" on what information it must request or whether it should take a different approach to self employed applicants, especially here as Mrs F had been self employed for over four years.*

*While I understand the points Tesco have made here and its reference to CONC. rules, the point I was making in my provisional decision was taking into account all of Mrs F's personal circumstances, it had a responsibility when providing a loan of this size over this length of time, that it was satisfied the applicants income was sustainable and I couldn't see it had done that here. What is important is to what extent Tesco should have gone to, to check that sustainability, as Mrs F had alluded her income wasn't guaranteed and that is why I felt the need for a reasonable time period of bank statements to be provided to evidence this.*

*Having now been sent the bank statements for a period of approximately 12 months before the loan was drawn, these indicate a stronger level of average monthly income than Mrs F indicated to this service. As I said in my provisional decision, there are no set rules on what checks Tesco should have undertaken, but perhaps these should have been more comprehensive. That said I feel sight of say six months bank statements would have been sufficient here for Tesco to determine a realistic net income average and by so doing would have confirmed the sustainability of that income.*

*The issue here is having now seen statements going back six months, these show an*

*average net monthly income of approximately £4,350 per month. So with that in mind even if Tesco had considered this as part of the application, in all likelihood it would have concluded the income was in line with the loan application and therefore the loan was sustainable and in line with its internal credit affordability modelling.*

*Mrs F says her overall financial position was poor, and Tesco would have realised that from her bank statements, but here Tesco did carry out external checks and there was no evidence of any adverse credit issues. I wouldn't expect Tesco to additionally request an income and expenditure profile for example, only to check Mrs F's income was at the levels she detailed on her application and seemed sustainable and while Mrs F may not agree, the statements she has provided show they were.*

*With that in mind I am now satisfied even if Tesco had asked for further clarification of Mrs F's income to satisfy affordability and sustainability by sight of further bank statements, it would have come to the same conclusion.*

*While Mrs F will be disappointed with my provisional decision, I won't be asking anymore of Tesco here.*

Both Mrs F and Tesco responded to my second provisional decision, so the case has been passed back 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.

I gave both Mrs F and Tesco until 2 April 2024 to accept or reject my provisional decision. Tesco have accepted my provisional decision, but Mrs F did not agree, and I will now cover the points she has raised.

Mrs F says that she never completed the application for the loan online and this was completed during a telephone conversation with a Tesco advisor who asked her to provide an average of her last three months income, and she had no idea of separating her basic wages from commission payments.

While I understand the points Mrs F makes here, as I said in my provisional decision there is no record of any such telephone call with Tesco but that's not the main issue here. What I would say is that even if the application had been completed with the assistance of a member of Tesco's staff, it would remain Mrs F's responsibility to accurately detail her average monthly income levels on any such application.

What is important here is that initially Mrs F informed this service if Tesco had checked her finances more closely, it would have seen her income wasn't as stated in her loan application and was unaffordable. With that in mind I asked Mrs F to produce bank statements so I could understand what her actual income levels were, and if that information had been considered by Tesco, whether that would have altered its lending decision. As I said in my provisional decision having seen bank statements from Mrs F, these showed for the six months leading up to the loan being drawn, an average monthly income of £4,350 - much in line with what her loan application stated. So, it's fair to say even if Tesco had seen those bank statements, as we wouldn't expect them to ask for statements over any longer period, I am satisfied it would have come to the same decision to approve the loan, given all its other internal checks and credit modelling had also proved satisfactory.

So, with that in mind I'm satisfied there was no substantial difference between what Mrs F

had stated in her loan application as her average monthly income compared to her actual income levels, leading up to the loan being approved by Tesco so I can't say Tesco have acted irresponsibly here.

While Mrs F will be disappointed with what I say here, I see no reason to change or add to my second provisional decision and so my final decision remains the same.

### **My final decision**

My final decision is that I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs F to accept or reject my decision before 6 May 2024.

Barry White  
**Ombudsman**