

The complaint

Mr O complains that Tesco Personal Finance PLC (“Tesco”) irresponsibly gave him a loan that he couldn’t afford.

What happened

In July 2022 Mr O applied for a loan with Tesco. He was given a loan of £20,000 and the monthly repayment was £382.79, repayable over 72 months.

Mr O has complained to Tesco to say that the account shouldn’t have been opened for him because it wasn’t affordable and Tesco should have realised this from its checks.

In my provisional decision dated 14 March, I explained why I wasn’t intending to uphold Mr O’s complaint. Essentially, I thought that based on the information it had available when looking into Mr O’s application, Tesco acted fairly in agreeing to lend.

I set out an extract below:

“Tesco said they carried out a credit search in Mr O’s name to assess Mr O’s level of debt at that time and to understand how he had been managing that debt. Tesco was then able to make its own assessment of the likely affordability of the loan, using its own scoring metric.

Mr O declared the reason for the loan was to help him purchase a car. The Tesco checks showed that Mr O had around £19,000 in unsecured loans and around £2,000 owing on credit cards. He also had outstanding mortgage borrowing of around £132,000. Yet Mr O’s credit file was very clean at the time of the loan application. When I say this, I mean that Consumer’s management of his existing credit showed no recent history of that would have led to adverse markings on his credit file, such as defaults, late payments or county court judgments. So, it seemed from the credit file that at the point that the lending decision was made, Mr O was affording his existing, albeit substantial, credit and that suggested that the new lending would be affordable.

I would therefore say that Tesco appeared to have little reason to make further enquiries into Consumer’s expenditure at that time, based on the information it was provided with by Mr O and also as a result of the information it had obtained from its own checks. And so, I wouldn’t conclude that Tesco was put on notice of any reason not to agree the lending from that.

I’ve seen that Mr O had taken out a loan for around £20,000 in late June 2022. This appears have followed on from three previous loans with the same lender that were settled at the end of May. Mr O says he is surprised that Tesco didn’t have knowledge of the new loan when it carried out its checks. But given that it takes several weeks for credit files to update, I don’t think that’s especially unusual. So I don’t consider it would be reasonable to apportion blame against Tesco for not relying on information that wasn’t apparent from its own credit checks. I’ve also seen that Mr O had borrowed funds from a business he was connected with which he was required to repay as and when possible. But again, this isn’t something that would have shown up in Tesco’s usual checks unless Mr O had drawn attention to it. I have to look at the information that was available to Tesco at the time it made its lending decisions and

not to use hindsight. Tesco was not made aware of these loans at the time Mr O was applying for the loan.

Nevertheless, considering the amount of the loan Mr O was taking, the amount he would have to repay for it in total and his existing level of borrowings, I think that Tesco could have made more searching enquiries into Mr O's income. I say this as the regulations suggest that it was open to Tesco to have sought corroboration for the declared income, for instance by way of obtaining proof of income from Mr O or requesting copy bank statements. Mr O has in fact provided us with bank statements covering a period of several months leading up to the lending. Having reviewed them, I'm currently satisfied that had Tesco sought further clarification about Consumer's financial situation, it's likely that Tesco wouldn't have seen enough to show or suggest that the loan was unreasonable.

And I have seen insufficient evidence that the other information that Tesco acquired or had presented to it at the time of the lending decision, would have led them to think that they were remiss in not checking Consumer's expenditure more closely, to the extent that it would have been prompted to ask about this additional borrowing.

So, considering the information that Tesco did have at the time of the lending decision, I don't think they had material reason to make more searching enquiries than they did. The evidence and information I've seen suggests that, whilst Mr O was without doubt heavily reliant on borrowing, the information he gave Tesco as part of his application combined with what Tesco saw in its searches was broadly representative of Consumer's financial situation and therefore his ability to repay new lending in a sustainable way. I acknowledge that there may be some variance in the figures Tesco relied upon due to Mr O settling some existing borrowing and taking on new borrowing, but I haven't seen enough make a finding that Tesco was making credit available to Mr O that looked likely to be unaffordable.

It follows that I'm not currently persuaded that, based on the information provided to Tesco or what Tesco could see of Consumer's management of other credit, ought to have prompted it to have acted differently than it did. And so, having considered all the submissions made in this case, I have currently seen insufficient evidence to think that the credit Tesco provided to Mr O was unreasonable."

Tesco has agreed with my provisional decision and has nothing further to add.

Mr O doesn't agree with my provisional decision. He has also sent in tax documentation detailing his earnings in the tax year covering the loan as well as for the previous year. I've considered everything Mr O has said in response to my provisional decision. His key objection to my finding is that he doesn't think Tesco's checks were adequate, that the loan was unaffordable to him and that he had to repeatedly rely on other borrowing. He has referred to several other decisions from this service to support this, although he appreciates that each decision turns on its own particular facts – and, I would add, the specific circumstances of each consumer.

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.

Tesco will be familiar with all the rules, regulations and good industry practice we consider when looking at a complaint concerning unaffordable and irresponsible lending. So, I don't consider it necessary to set all of this out in this decision. Information about our approach to these complaints is set out on our website.

I've re-read and considered the whole file, plus Mr O's detailed response to my provisional decision. Whilst I am grateful for the time and effort he has taken to put this together, I don't propose to respond to every point he has made. This is not to be unhelpful but because I have already thought about the points he is making – namely that his financial situation at the time was not good and he was overly-reliant on other lending – in my initial consideration of his complaint.

I remain of the view that Tesco was entitled to rely on the data it obtained as part of its credit search. It was equally entitled to rely on what Mr O had said in his application for the credit. Mr O says that Tesco ought to have carried out better searches and that had it done so it would not have agreed to the loan. But Tesco accepted the evidence and information it had obtained and, whilst it was open to it to carry out further checks, I didn't consider there was enough evidence to suggest that it needed to do so.

I've already acknowledged that Mr O had a high level of borrowing and that it looks as if some of Mr O's more recent borrowing didn't appear in Tesco's checks. But from what I've seen of Mr O's borrowing as shown in his credit report and supported by what I've seen in his bank statements, I still consider that Mr O's borrowing remained within an acceptable margin. I say this keeping in mind that in his application he had stated his monthly income to be £3,047, that he was in full time employment and that his total debt repayments each month were £794, including his mortgage.

To summarise, I still think Tesco carried out checks that were proportionate at the time that it decided to agree to lend to Mr O. And I haven't seen enough to make me think that the evidence and information it saw at the time ought to have caused Tesco to act differently because it might have been unfair or unreasonable to lend to him as the new lending might prove to be unaffordable.

My final decision

For the reasons given above, my final decision is that I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr O to accept or reject my decision before 18 April 2024.

Michael Goldberg
Ombudsman