

## **The complaint**

Miss F says Tesco Personal Finance PLC (TPF), trading as Tesco Bank, irresponsibly lent to her.

## **What happened**

Miss F took out a £17,000 loan over 84 months from TPF in September 2018. The monthly repayments were £273.66 and the total repayable was £22,987.44.

Miss F says TPF did not carry out adequate checks. The loan was not affordable for her. She had recently split from her partner following the loss of their baby son and her mental health and financial stability was very poor at the time. Proportionate checks would have shown she was financially vulnerable. Also, TPF did not ask about her health at the time. None of the stress she suffered when she missed payments would have occurred if she had not been given the loan in the first place. She had to take equity out of her property to clear the loan and is now left with higher mortgage costs. She wants compensation and a refund.

TPF says it carried out highly sophisticated and automated checks that showed the loan would be affordable for Miss F. There was no requirement for it to ask about an applicant's health. It acknowledged there had been some errors once Miss F had problems making her repayments but these issues have been addressed in separate complaints that it upheld.

Our investigator upheld Miss F's complaint. She said TPF's checks were not proportionate and better checks would have shown the loan was not affordable for Miss F.

TPF did not respond to this assessment so the complaint was passed 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.

TPF 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. Our approach to complaints about irresponsible lending is set out on our website and I have followed it here.

Before approving Miss F's loan application TPF was required to carry out proportionate checks to ensure the lending was affordable. There isn't a specific set of checks that need to take place, but TPF was required to undertake reasonable and proportionate checks taking into consideration, amongst other things, the value and term of the lending and what it knew about the applicant's circumstances.

To reach a decision on this case I have therefore considered if TPF's checks were proportionate; if so, did it make a fair lending decision; if not, what would better checks most likely have shown; and finally, did TPF treat Miss F unfairly in some other way.

I can see TPF asked for certain information from Miss F at the point of application. It asked for her monthly income, employment status, relationship status and housing costs. It carried out a credit check and used the mortgage cost it saw on this and reviewed Miss F's other existing commitments and credit history. It applied an estimate for living costs based on national averages. It asked about the purpose of the loan – whilst this was debt consolidation as TPF doesn't settle balances directly with other lenders it considered if Miss F could afford both her existing debts and this new repayment. It included a buffer for inflation. Based on these checks combined it concluded Miss F could afford the loan.

I note that within its submission to this service there are two different levels of disposable income it assumed Miss F would have after taking on this loan. The '*credit risk complaints template*' calculated £29 a month whereas the '*FOS case review*' states £232.69. It seems the variance is driven by whether the mortgage cost is included in full or part. I will not comment now on this however as I am not satisfied these checks were proportionate given the term and value of the loan. TPF needed to be certain Miss F could make her repayments without suffering any financial harm for seven years.

In these circumstances I think it needed to not only verify her income – I would remind it of the regulatory guidelines under CONC 5.2A.16 (G) which state in section 3):

*For the purpose of considering the customer's income under CONC 5.2A.15R, it is not generally sufficient to rely solely on a statement of current income made by the customer without independent evidence (for example, in the form of information supplied by a credit reference agency or documentation of a third party supplied by the third party or by the customer).*

– but also to understand her actual outgoings. And it should have sought clarity about her housing costs given the anomaly that she declared she was single but had a joint mortgage.

In cases like this we look at bank statements for the three months prior to application. I am not saying TPF had to do exactly this but it is a reliable way for me to understand what better checks would have most likely shown.

As the investigator said, they show Miss F's income was lower than declared. Her actual salary seemed to vary significantly as well from £587.23 in June 2018 to £1,138.15 in August 2018. I would have expected TPF to want to understand more about this. And her fixed outgoings exceeded her salary. The statements show Miss F was paying the mortgage of £518 in full. So I think TPF, as a responsible lender, had it completed proportionate checks would have realised there was a high risk that Miss F would be unable to repay this loan sustainably.

I have thought about the fact the loan was for debt consolidation but it does not change my conclusion. As TPF says it was not clearing the balances directly and in addition some of the debt was on a revolving line of credit so Miss F would still have access to that.

I would add that even based on the checks it did complete, given the results in the '*credit risk complaint template*' I cannot see why TPF would defend its lending decision. It calculated Miss F would have disposable income of only £29 a month over a seven-year period. It cannot argue that would not create a high risk that the repayments would not be sustainably affordable for the term of the loan.

In the round, I find TPF was wrong to lend to Miss F.

*Did TPF treat Miss F unfairly in some other way?*

Miss F raised that TPF did not ask about, or take into account, her health at the time of the application and her mental health was poor. But it is reasonable that it did not proactively ask. And as Miss F had not raised her possible lack of capacity it was not on notice of her vulnerabilities so would not have looked to make any reasonable adjustments or offer additional support. It follows in these circumstances I cannot find any failing on the lender's part.

I do want to add that I was very sorry to read about Miss F's sad loss and how she suffered. I do hope she now has the support she needs.

### **Putting things right**

It is fair Miss F repaid the capital as she has had the benefit of that money. But she has also paid interest and charges on a loan that should not have been given to her.

So TPF should:

- Retrospectively remove all interest and charges from Miss F's loan account and treat all repayments she made as repayments of the capital.
- As reworking Miss F's loan account will result in her having effectively made payments above the original capital borrowed, then TPF should refund these overpayments with 8% simple interest calculated on the overpayments, from the date the overpayments would have arisen, to the date of settlement\*.
- Remove any adverse information recorded on Miss F's credit file in relation to the loan.

I have found no grounds to make any additional compensatory award.

\*HM Revenue & Customs requires TPF to deduct tax from this interest. TPF should give Miss F a certificate showing how much tax it's deducted if she asks for one.

### **My final decision**

I am upholding Miss F's complaint. Tesco Personal Finance PLC, trading as Tesco Bank, must put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss F to accept or reject my decision before 29 May 2024.

Rebecca Connelley  
**Ombudsman**