

The complaint

Miss M complains that Tesco Personal Finance PLC trading as Tesco Bank was irresponsible in its lending to her and didn't give her the information she needed before providing her with a loan. She wants all interest and charges refunded along with statutory interest and any adverse information removed from her credit file.

What happened

Miss M was provided with a £7,500 loan by Tesco Bank in September 2023. The loan was repayable over 60 months with monthly repayments of around £168.

Miss M says that adequate checks weren't carried out before the loan was provided to ensure that she could afford the repayments. She said that she wasn't told how much she would need to repay or provided information about what to do if she was in financial difficulty or warnings about late payments. She explained that she suffers with long term mental health issues and that her mental health wasn't questioned through the loan application process.

Tesco Bank issued a final response not upholding Miss M's complaint. It explained that the frequently asked questions on its website set out what would happen if a payment was missed and included details of its financial assistance team and that its pre-contract credit information set out the fees and charges and the impact of missing payments. Regarding Miss M's complaint about irresponsible lending, it said that its lending decision was based on the information gained through the application process from the customer as well as external sources such as credit reference agencies. It then carried out an affordability calculation. It said that based on the information received through Miss M's application process the loan was affordable.

Tesco Bank noted Miss M's comment about her mental health and said that it wouldn't ask about a customer's mental health as part of its application process. But it said that if made aware of these issues it was required to provide help and support. It said it wasn't aware of Miss M's mental health conditions until she raised her complaint and provided details of its Financial Assist Team and explained the support that could be provided.

Miss M wasn't satisfied with Tesco Bank's response and referred her complaint to this service.

Our investigator upheld this complaint. She didn't think that Tesco Bank carried out proportionate checks noting the size and duration of the loan and the other debts Miss M had outstanding at the time. She used the information contained in Miss M's account statements to give an indication of what further checks would have shown and found that Miss M's expenditure in the months leading up to the loan exceeded her income. Given this she didn't think that Tesco Bank should have provided the loan. Regarding the other issues Miss M raised, our investigator found that Miss M was provided with information about the cost of the loan and the amount repayable as well as the consequences of missing payments and where to get advice. She noted Miss M's comment about the impact of her mental health on her decisions but said she couldn't say that Tesco Bank was wrong not to

ask about Miss M's mental health as part of the application process.

Based on the above, our investigator upheld Miss M's complaint in regard to irresponsible lending and recommended that all interest and charges be refunded, and any adverse information removed from Miss M's credit file once the outstanding balance had been repaid.

Tesco Bank didn't accept our investigator's view. It said it was disproportionate to require further checks to take place as Miss M was deemed a low-risk customer. It said it completed an affordability assessment based on the information Miss M provided and that received from the credit reference agencies and Miss M had significant disposable income. It said Miss M's credit check didn't show any adverse data and that her unsecured debt was made up of loan accounts with fixed repayments totalling £162 a month and a small revolving balance.

Our investigator responded to Tesco Bank's comments saying that she still considered further checks should have taken place, and in particular some verification of income should have happened. She noted that Miss M was out of employment for the two months leading up to the loan being provided and that her expenditure exceeded the amount she was receiving in benefits.

As a resolution hasn't been agreed, this complaint has been passed to me, an ombudsman, to issue a 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.

Our general approach to complaints about unaffordable or irresponsible lending – including the key rules, guidance and good industry practice – is set out on our website.

The rules don't set out any specific checks which must be completed to assess creditworthiness. But while it is down to the firm to decide what specific checks it wishes to carry out, these should be reasonable and proportionate to the type and amount of credit being provided, the length of the term, the frequency and amount of the repayments, and the total cost of the credit.

Miss M received a £7,500 loan repayable over 60 months. Before providing the loan, Tesco Bank gathered information about Miss M's employment, income and residential status. Miss M said she was employed full time and a net monthly income of £1,689 with additional net income of £691 was recorded. Miss M said she was renting, and her total outgoings were calculated as £1,795. A credit search was carried out which didn't record any adverse information and showed Miss M had total unsecured debt of £6,270 of which £4,705 was loans and £1,565 was revolving debt.

Miss M's income was made up of net income and additional income and her net income was exceeded by the amount calculated for her total outgoings. I accept that the credit search didn't raise concerns about how Miss M was managing her existing commitments, but given the size and term of the loan and noting Miss M's existing credit commitments, I think it would have been reasonable to have verified Miss M's income before the loan was provided. Had this happened I find it more likely than not that Tesco Bank would have identified that Miss M was no longer in employment in the two months prior to the loan being provided (last income was from employment in June 2023). The change in Miss M's employment status I think should have prompted further checks to take place to ensure that Tesco Bank had a full understanding of Miss M's financial circumstances before the loan was provided.

Miss M has provided copies of her bank statements for the months leading up to the loan application. While Tesco Bank wasn't required to request copies of Miss M's bank statements as I think it needed to get a clear picture of her income and expenses at the time, I have relied on the information these contain to assess what Tesco Bank would likely have found had further checks taken place.

Miss M's bank statements show her monthly income following her change in employment status consisting of benefits and I think had these been assessed and further questions asked, a monthly net income of around £2,000 would have been identified. Given the lower income, I think it would have been proportionate to have asked Miss M about her specific expenses to ensure that the new lending would be sustainably affordable over the loan term.

Looking through Miss M's bank statements, these show she was paying monthly rent and bills such as utilities and insurance as well as for food and transport. Adding to this amount, Miss M's existing credit commitment resulted in her expenses before the Tesco Bank loan being around the same as her income (around £2,000), leaving her with no spare funds to make the repayments on the new loan. Given this, I think that had further questions been asked Tesco Bank would have realised that the additional lending to Miss M wasn't sustainably affordable.

Miss M has raised other issues about the information she was provided with before entering into the loan and that Tesco Bank didn't ask her about her mental health. I have looked at the pre-contract credit information and this includes information about the cost of the loan and how much Miss M is required to repay. It also includes the charges that can be applied, the consequences of missed payments and details about making a complaint. Therefore, I find that Miss M was provided with the information she should have been before accepting the loan.

I am sorry to hear of the challenges Miss M faces due to her mental health conditions and I appreciate the impact this can have on her behaviour. But Tesco Bank wasn't required to ask Miss M about her mental health before providing the loan and as Miss M didn't inform it about her situation at the time, Tesco Bank wasn't able to take this into account. Now that Miss M has made Tesco Bank aware of her situation, we would expect it to provide suitable help and support.

Putting things right

Tesco Personal Finance PLC trading as Tesco Bank should add up the total amount of money Miss M received as a result of having been given the loan. The repayments Miss M made should be deducted from this amount.

- a) If this results in Miss M having paid more than she received, any overpayments should be refunded along with 8% simple interest (calculated from the date the overpayments were made until the date of settlement)*. Tesco Bank should also remove all adverse information regarding this loan from Miss M's credit file.
- b) If any capital balance remains outstanding, then Tesco Bank should attempt to arrange an affordable and suitable payment plan with Miss M. Once Miss M has cleared the balance, any adverse information in relation to the loan should be removed from her credit file.

*HM Revenue & Customs requires Tesco Bank to take off tax from this interest. Tesco Personal Finance must give Miss M a certificate showing how much tax it's taken off if she asks for one.

My final decision

My final decision is that Tesco Personal Finance PLC trading as Tesco Bank should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 27 June 2024.

Jane Archer
Ombudsman