

The complaint

Mr F complains that Tesco Personal Finance PLC trading as Tesco Bank was irresponsible in its lending to him. He wants the interest and charges refunded on his account.

What happened

Mr F was provided with a £34,500 loan in June 2019. The loan was repayable over 48 months with monthly repayments of around £909. He says that at the time his debt-to-income ratio was already unmanageable, and he had multiple credit cards on which he was only making the minimum payments. He said the loan repayments accounted for a third of his income and he was also paying £1,000 a month for his mortgage. He thinks that had Tesco Bank carried out adequate checks it would have seen the lending shouldn't have been approved.

Tesco Bank issued a final response not upholding Mr F's complaint. It said that Mr F applied for the loan saying the purpose was to refinance his other debts. It said before lending it considered the information provided by Mr F as well as information received from the credit reference agencies and scored his application against its internal scoring card to ensure the lending was affordable. It said its checks showed that Mr F had no adverse markers on his credit file showing he was managing his existing lines of credit well. It said that even though the purpose was said to be to refinance other debt it assessed the lending to ensure Mr F could afford the repayments as well as his existing debts. Tesco Bank said its affordability assessment and creditworthiness checks didn't raise any concerns.

Tesco Bank noted that Mr F missed a payment in September 2021 and had explained this was an oversight and that he wasn't experiencing any financial difficulties. It said this showed that Mr F was comfortable with the loan repayments and the account was still suitable for him at that time.

Our investigator upheld this complaint. She thought that given the size of loan and the repayments and noting Mr F's already high debt to income ratio that Tesco Bank should have done more to ensure it had a thorough understanding of Mr F's financial circumstances before lending. She thought that had further checks been undertaken that Tesco Bank would have realised that the lending wasn't sustainably affordable for Mr F. Because of this she recommended that Tesco Bank refund all interest and charges applied to the loan and Mr F only be required to repay the money he borrowed.

Tesco Bank didn't accept our investigator's view. It said that Mr F had included in his loan application that he was paying 50% of the mortgage and it didn't accept that had it reviewed Mr F's bank statements it would have seen he was paying 100%. It said Mr F had been able to repay the loan in full and only had one late payment in the four years which he contacted Tesco Bank about saying he had forgotten to transfer the money to cover the payment and that he wasn't in any financial difficulty. It said it was reasonable to accept that as Mr F had said he would be using the money to refinance his debts that this is what the funds would be used for. Based on this it didn't accept that the lending was unaffordable or unsustainable for Mr F.

My provisional conclusions

I issued a provisional decision on this complaint, the content of which is set out below.

Before the loan was provided, Tesco Bank gathered information through the application process about Mr F's income and employment and his residential status. Mr F declared a monthly net income of £3,000. The purpose of the loan was recorded as refinancing other debt. A credit check was also carried out. The credit check didn't raise any concerns that Mr F was struggling to maintain his credit commitments at that time, with no defaults or delinquent accounts recorded and no arrears in the previous six months.

However, the credit search did identify that Mr F had total unsecured debt of £24,383 of which £19,512 was revolving debt. This was additional to a mortgage. Mr F's mortgage repayment was identified as £1,028 but he declared his share as £514. His loan repayments were £73 and repayments towards his revolving debt were around £590. Given Mr F's existing credit commitments and noting this was recorded to be at the high end of Tesco Bank's debt to income tolerance, I find it reasonable that further checks would be carried out.

Tesco Bank said the application was referred to an underwriter, which confirmed the repayments towards the loan and revolving debt and noted the mortgage was a joint mortgage and so stated a 50% share was reasonable.

While I note that Mr F had said the loan was for refinancing other debt, given his high debt to income ratio at the time of application and the size of the new lending, and further noting that the repayments towards the new loan would account for a substantial amount of his monthly income (even if this was used to refinance his other debt), I think in this case, Tesco Bank needed to ensure it had a full understanding of Mr F's financial circumstances before lending.

Tesco Bank referred the application to an underwriter, but I also think it would have been reasonable to carry out further checks to verify Mr F's income and ensure it had a clear understanding of Mr F's specific expenses (as opposed to using an estimate).

As I think it would have been proportionate to have carried out further checks before providing the loan, I have considered what Tesco Bank would likely have identified had these taken place. Tesco Bank wasn't required to request copies of Mr F's banks statements but as these have been provided, I have considered the information they contain to assess what Tesco Bank would likely have identified had further checks been undertaken.

Looking through Mr F's bank statements these confirm his monthly net income as £3,000. His sole account showed him making monthly payments towards credit cards and a loan repayment of around £73. The mortgage payment was made from Mr F's joint account (with his wife) and other household costs were also paid through this account. While payments were received into this account from accounts other than the one Mr F has provided details of, it appears that he was contributing the majority of funds to this account in the months leading up to the loan application. I cannot say for certain what Mr F would have declared had he been asked further about the mortgage payment (that is whether he would have continued to say he paid 50% or if he would have declared a higher amount) and so I have considered what would have been identified as his total expenses from the information contained in his account statements.

Mr F contributed money to the joint account and also received some money from it to his sole account. His net average contribution to the joint account for the months leading up to the loan application was around £1,200. He then had his financial commitments which were identified through the credit check as totalling around £663 and I do not find that further

checks would have changed this assessment. Mr F was also paying around £50 for other commitments. Taking all this into account his total expenses were around £1,913 before the Tesco Bank loan and before his general living costs.

Adding the additional repayments due under the Tesco Bank loan would increase Mr F's expenses to around £2,822. While this is less than Mr F's income the costs don't include his general living costs (such as food and transport) and I do not find this would provide a reasonable amount for this. So, if the Tesco Bank loan was entirely additional lending, I do not find that this should have been considered as affordable.

However, the loan was intended to refinance Mr F's debts. I cannot say for certain what Mr F would have said about which debts he intended to refinance had he been asked but I note he has confirmed that the purpose of the loan was to refinance both his and his wife's credit card debts. The copy of his credit file he provided shows that following the provision of the loan he did repay a number of his credit cards. So, I think it more likely than not that if asked about the debt refinancing, he would have said the loan would repay his credit card debts. Taking this into account, following the provision of the loan Mr F's credit commitments would include the new loan repayments (£909) as well as his existing loan repayments (£73). Adding his other expenses identified above would leave disposable income for his general living costs of around £768. Based on this I do not find I can say that further checks would have shown the lending to be unaffordable.

So, taking into account the purpose of the loan as being to refinance Mr F's debts, I do not find that had further questions been asked that this loan would have been found to be unaffordable. Because of this I do not intend to uphold this complaint.

Mr F didn't agree with my provisional decision. He noted that Tesco Bank had said the loan was for debt consolidation but that his debt at the time totalled £24,383 and the new loan was for £34,500. He said it was irresponsible to lend an additional £10,000. He said that his debts had only ever increased, and a basic search would have shown this. He said that even assuming he paid half of the mortgage cost he was unable to bring his debts down and the new lending was unaffordable.

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.

I have considered the comments Mr F has made in response to my provisional decision but in this case, they do not change my conclusions. As I set out in my provisional decision, given the size of the loan and cost of repayments and noting Mr F's existing credit commitments at the time I think it would have been reasonable for Tesco Bank to have carried out further checks to ensure the new loan was affordable. I appreciate that the new loan provided additional credit (of around £10,000) but factoring in the purpose of the loan as repaying other debts, for the reasons I set out in my provisional decision, I find that further

checks wouldn't have shown the new loan to have been unaffordable for Mr F. Because of this I do not find I can uphold this complaint.

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 Mr F to accept or reject my decision before 1 July 2024.

Jane Archer
Ombudsman