

The complaint

Mr and Mrs S complain that Tesco Personal Finance PLC trading as Tesco Bank have irresponsibly lent to them.

What happened

Mr and Mrs S were approved for a joint Tesco loan which was paid into their account in August 2019 for £12,000. Mr and Mrs S say that Tesco irresponsibly lent to them. Mr and Mrs S made a complaint to Tesco.

Tesco did not uphold Mr and Mrs S' complaint. It said the loan purpose was to refinance existing debt. Tesco said its decision to lend was based on the information Mr and Mrs S provided and the information it obtains from the Credit Reference Agencies (CRA's). It said it then assesses the application against its lending criteria and completes an affordability calculation.

Tesco said the loan was offered on the basis that the data showed that the total unsecured debt found at the CRA's was in moderate proportion to the combined declared income and it found no adverse markers such as Individual Voluntary Arrangements (IVA's), bankruptcies or County Court Judgements (CCJ's), nor did it find any record of any recent arrears being reported. Tesco said although it saw Mr S had been subject to defaults, these were historic, and they were taken into account in the scoring of the application.

Tesco said it also requested recent bank statements from both applicants, to conduct some further affordability checks. Upon receipt of these, it completed its affordability assessment which concluded that after deducting housing costs (as verified at the CRA's) and living costs, estimated using data from the Office for National Statistics (ONS), the loan repayments would be affordable whilst also maintaining reasonable payments to their other lines of credit. Mr and Mrs S brought their complaint to our service.

Our investigator upheld Mr and Mrs S' complaint. She said although Mr and Mrs S were up to date with their repayments, the level of unsecured debt they had was relatively high in comparison to their income. So Tesco should have reviewed their bank statements. She said she reviewed the bank statements leading up to the loan approval, and some months the income was showing as being £1,900 and in other months it was £0, so based on the statements provided she was unable to conclude the loan was affordable for Mr and Mrs S.

Tesco asked for an ombudsman to review the complaint. It said Mr and Mrs S declared incomes of over £3,000 a month, and when they were asked to provide bank statements to show this income prior to the funds being released they produced this.

As my findings differed in some respects from our investigator's, I issued a provisional decision to give both parties the opportunity to consider things further. This is set out below:

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

Before agreeing to approve the credit for Mr and Mrs S, Tesco needed to make proportionate checks to determine whether the lending was affordable and sustainable for them. There's no prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include - but are not limited to: the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances.

I've looked at what checks Tesco said it did when initially approving Mr and Mrs S' application. Tesco said it looked at details Mr and Mrs S gave it as part of their application, and details from a CRA. It also said it requested bank statements from Mr and Mrs S.

The application data showed that Mr and Mrs S declared a total net monthly income of £3,406. Tesco received information from the CRA's of their mortgage monthly repayment, their loan monthly repayments, and they calculated other account repayments. Tesco also took into account living costs, estimated using data from ONS.

Once these costs were deducted from the income Mr and Mrs S declared, Tesco had calculated they could afford the £262.34 monthly repayment for the new loan and have disposable income remaining, even after including a provision for inflation in the outgoings (although the loan repayments would be fixed). The checks from the CRA showed no CCJ's, IVA's or bankruptcies for Mr and Mrs S.

But that's not all the checks showed. They showed Mr and Mrs S already had total unsecured debt of £28,261, with £15,118 being for loan balances and £13,141 being for revolving balances (such as credit cards).

The checks also showed two previous defaults, with the last default being registered 35 months prior to the loan application. It may help to explain here that, while information like defaults on someone's credit file may often mean they're not granted further credit – they don't automatically mean that a lender won't offer borrowing.

So due to the level of Mr and Mrs S's debt to income, and because of the previous defaults Tesco made further proportionate checks to ensure the loan repayments would be affordable and sustainable for Mr and Mrs S.

Mr and Mrs S have provided their bank statements leading up to the loan being deposited in their account. As the deposit was in August 2019, I've looked at the account activity for May, June and July 2019, as the August statements would not have been produced prior to Tesco releasing the loan funds.

The bank statements show that Mr and Mrs S run their account well. They show they were never overdrawn during the statement periods I've reviewed. The statements appear to show some months where Mr and Mrs S earns more than what they've declared to Tesco as their income.

I'm persuaded that the previous confusion over what credits were showing on the bank statements was due to the frequency of the bank statements. Some of the statements only cover a few days at a time (for example 21-24 May 2019), whereas other statements are weekly. So some statements do show a weekly income of £0. But looking at the statement periods in terms of 1-31 May 2019, there were credits entering Mr and Mrs S' bank account totalling £4,703.95 (these showed starting from the 4 May statement and large credits credited the account on 28 May 2019 - £1,902.51 and 31 May 2019 - £843.16). This was a lot higher than the income Mr and Mrs S declared to Tesco, although I do note that some of the credits were state benefits.

June 2019 statements show £3,579.31 crediting Mr and Mrs S' account, which is slightly higher than what Mr and Mrs S declared to Tesco. And the July statements show £3,874.36 crediting their bank account. As Tesco requested bank statements from Mr and Mrs S prior to releasing the funds, then it would have been able to see the income crediting their bank account was consistent with what they declared, and sometimes higher than this.

As the purpose of the loan was for debt consolidation, then Tesco would expect Mr and Mrs S to use the funds to repay debt, which should also give Mr and Mrs S more disposable income. So I'm satisfied that Tesco made proportionate checks, and they made a fair lending decision to approve the £12,000 loan for Mr and Mrs S.

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Tesco lent irresponsibly to Mr and Mrs S or otherwise treated them unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here. So it follows I don't intend to ask Tesco to do anything further."

I invited both parties to let me have any further submissions before I reached a final decision. Tesco said they had nothing further to add. Mr and Mrs S did not respond to the provisional 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.

As neither party have provided me with any further information to consider, then my decision and reasoning remains the same as in my provisional decision.

My final decision

I do not uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S and Mrs S to accept or reject my decision before 4 October 2024.

Gregory Sloanes
Ombudsman