

Complaint

Mrs S has complained about a loan Tesco Personal Finance PLC (trading as “Tesco Bank”) provided to her. She says that Tesco Bank provided her with an unaffordable loan at a time when her credit history and income showed that she shouldn’t have been lent to.

Background

Tesco Bank provided Mrs S with a loan for £16,500.00 in August 2022.

The loan had an APR of 12.9% and a 86-month term. This meant that the total amount to be repaid of £25,042.08, which included interest, fees and other charges of £8,542.08, was due to be repaid in 86 monthly instalments of £298.12. The information from the application indicates that Mrs S selected debt consolidation as being the purpose of this loan.

One of our investigators reviewed what Mrs S and Tesco Bank had told us. And she thought that Tesco Bank hadn’t acted unfairly when providing Mrs S with her loan. So she didn’t uphold Mrs S’ complaint.

Mrs S disagreed and asked for an ombudsman to look at her complaint.

My findings

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

We’ve explained how we handle complaints about unaffordable and irresponsible lending on our website. And I’ve used this approach to help me decide Mrs S’ complaint.

Having carefully considered everything, I’ve decided not to uphold Mrs S’ complaint. I’ll explain why in a little more detail.

Tesco Bank needed to make sure it didn’t lend irresponsibly. In practice, what this means is Tesco Bank needed to carry out proportionate checks to be able to understand whether Mrs S could afford to repay before providing this loan.

Our website sets out what we typically think about when deciding whether a lender’s checks were proportionate. Generally, we think it’s reasonable for a lender’s checks to be less thorough – in terms of how much information it gathers and what it does to verify it – in the early stages of a lending relationship.

But we might think it needed to do more if, for example, a borrower’s income was low or the amount lent was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So we’d expect a lender to be able to show that it didn’t continue to lend to a customer irresponsibly.

Tesco Bank says it agreed to Mrs S' application after she provided details of her monthly income and expenditure. It says it also obtained further information on Mrs S as a result of the credit searches it carried out on her.

In its view, the information it gathered about Mrs S' income and expenditure showed that Mrs S would be able to make the repayments she was committing to. Tesco Bank says, in these circumstances it was reasonable to lend.

On the other hand, Mrs S has said the loan was unaffordable because of her credit history and the amount of loans she already had. So she shouldn't have been lent to.

I've carefully thought about what Mrs S and Tesco Bank have said.

The first thing for me to say is that this was Mrs S' first loan with Tesco Bank. The information provided does suggest Mrs S was asked to provide details of her income and a credit check which showed that Mrs S unsecured debt wasn't excessive (especially if the loan was used to consolidate as Mrs S had said she would) and appeared to be reasonably managed.

At the absolute most it could be argued that Tesco Bank needed to ask Mrs S a bit more about her living costs rather than rely on statistical data. However, having looked at the information Mrs S has provided us with now, I don't think that there is anything in it that should have led to Tesco Bank declining Mrs S' application. Indeed, on the face of things, what has been provided appears to show there's nothing in it which calls the rest of the information Tesco Bank relied on into question.

Furthermore, as I've previously stated, the information from the time appears to indicate that the purpose of this loan debt consolidation. I don't know if Mrs S did go on to clear some of her existing debts in the way that she said she would. And even if she did, I accept that it's possible that Mrs S went on to re-establish balances on any accounts that she may have cleared. But Tesco Bank won't have known whether Mrs S might do this – all it could do was take reasonable steps and rely on assurances from Mrs S that this would be done with the funds from this loan.

Equally, this was a first loan Tesco Bank was providing to Mrs S for debt consolidation purposes and there wasn't a history of Mrs S obtaining funds and then failing to consolidate debts elsewhere in the way she committed to either. So Tesco Bank was reasonably entitled to believe that Mrs S would be left in a better position and with lower overall outgoings after being provided with this loan.

Bearing this in mind and what the rest of the information shows, I can't reasonably say that further scrutiny of the information gathered would have prevented Tesco Bank from providing this loan. I'd also add that it's only fair and reasonable for me to uphold a complaint in circumstances where a lender did something wrong. And, in this case, I don't think that Tesco Bank did anything wrong in deciding to lend to Mrs S – especially given this was a first loan and its lack of previous history with Mrs S. So overall I don't think it was unfair or unreasonable for Tesco Bank to have provided this loan to Mrs S.

In reaching my conclusions, I've also considered whether the lending relationship between Tesco Bank and Mrs S might have been unfair to Mrs S under section 140A of the Consumer Credit Act 1974 ("CCA").

However, for the reasons I've explained, I don't think Tesco Bank irresponsibly lent to Mrs S or otherwise treated her unfairly in relation to this matter. And I haven't seen anything to

suggest that section 140A CCA or anything else would, given the facts of this complaint, lead to a different outcome here.

Overall and while I accept that there is an argument for saying that Tesco Bank ought to have carried out further checks before agreeing to lend to Mrs S, bearing in mind all of the circumstances, I'm not persuaded it doing more here would have made a difference to its decision to lend. So I'm not upholding this complaint. I appreciate this will be very disappointing for Mrs S. But I hope she'll understand the reasons for my decision and that she'll at least feel her concerns have been listened to.

Although I'm not upholding Mrs S' complaint, I would remind Tesco Bank of its continuing obligation to exercise forbearance and due consideration, given Mrs S has said about having difficulty making her payments.

I would also encourage Mrs S to get in contact with and co-operate with any steps that may be needed to review what she might, if anything, be able to repay going forward. Mrs S may be able to complain to us – subject to any jurisdiction concerns – should he be unhappy with Tesco Bank's actions in relation to exercising forbearance over the remainder of the term.

My final decision

My final decision is that I'm not upholding Mrs S' complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs S to accept or reject my decision before 6 January 2025.

Jeshen Narayanan
Ombudsman