

The complaint

Miss M has complained through a representative that Tesco Personal Finance PLC trading as Tesco Bank ("Tesco") failed to conduct proportionate affordability checks before it lent to her.

What happened

Miss M was advanced one loan on 26 May 2022 for £12,000. She was due to make 60 monthly repayments of £237.99 and had Miss M made her payments as contracted she'd have repaid £14,279.40. The loan had an APR of 7.3%. Miss M has had some difficulties repaying this loan and I've seen from the credit report she's provided the loan defaulted in July 2023.

Following Miss M's complaint, Tesco wrote to her representative and explained the checks that it carried out. It concluded the checks were proportionate and demonstrated that Miss M would likely be able to afford the repayments, notwithstanding the inputting error which I explain in more detail later in the decision. Unhappy with this response, Miss M's representative referred the complaint to the Financial Ombudsman.

An investigator didn't uphold Miss M's complaint because he concluded the checks were proportionate and showed the payments to be affordable. Miss M's representatives didn't agree and gave reasons why.

The investigator explained why these points didn't change his mind and as no agreement could be reached the complaint was passed to me to decide. I issued a provisional decision providing further reasoning as to why I didn't think Miss M's complaint ought to be upheld. Both parties were asked to provide any further comments as soon as possible but, in any event, no later than 24 January 2025.

Miss M didn't agree with the findings of the provisional decision saying bank statements were used to verify the income but allowed Tesco to rely on statistical data for Miss M's expenditure. The bank statements ought to have been used to work out Miss M's monthly expenditure rather than relying on statistical data.

Further information was then sought and received from Tesco around the affordability checks and the difference in information that ought to have been used for a joint and single application.

A copy of the provisional findings follows this in smaller font and forms part of this final decision.

What I said in my provisional decision:

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

We've set out our general approach to complaints about unaffordable/irresponsible lending - including all of the relevant rules, guidance and good industry practice - on our website. The rules and regulations in place required Tesco to carry out a reasonable and proportionate assessment of Miss M's ability to make the repayments under the loan agreement. This assessment is sometimes referred to as an "affordability assessment" or "affordability check".

The checks had to be "borrower-focused" – so Tesco had to think about whether repaying the loan would be sustainable. In practice this meant that the business had to ensure that making the repayments on the loan wouldn't cause Miss M undue difficulty or significant adverse consequences.

That means she should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payment she had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on her financial situation.

In other words, it wasn't enough for Tesco to simply think about the likelihood of it getting its money back - it had to consider the impact of the loan repayments on Miss M. Checks also had to be proportionate to the specific circumstances of the loan application.

In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of Miss M (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications.

In light of this, I think that a reasonable and proportionate check ought generally to have been more thorough:

- *the lower a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income);*
- *the higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income);*
- *the greater the number and frequency of loans, and the longer the period of time during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).*

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss M's complaint. Having looked at everything I have decided to not uphold Miss M's complaint and I've explained why below.

Miss M, as part of the online application declared she earned a total of £4,109 per month and Tesco confirmed it took no further steps to check Miss M's income.

However, I don't think the income figure used by Tesco as part of the affordability assessment was quite right – and Tesco ought to have known this at the time. In the final response letter Tesco said

"...As part of my review, I have identified that the total income that Miss M [full name removed] declared on her application was likely inputted in error. Therefore, we have taken this opportunity to rework the affordability calculation based on her true net monthly income of £2409 and using today's affordability calculator..."

I made further enquires with Tesco about the nature of this error. Tesco has explained that as part of the application process Miss M said it was a joint application – when in fact it wasn't. This resulted in Miss M's income of around £1,700 per month being added twice along with further, additional income of £700. This was how the monthly income of around £4,109 was arrived at.

However, Tesco has explained what should've happened. For its affordability assessment it ought to have used the declared salary of around £1,700 plus the additional income of £700 – bringing Miss

M's monthly income to around £2,400. And this is why the final response letter says the affordability assessment was re-done at the time the complaint was made.

This also explains why the credit agreement has Miss M's name in two places where it states who the agreement is between. Miss M may have accidentally selected this was a joint application when the intention was clearly for it to be a single person application. Tesco ought to have picked up on that as part of the loan process, given the names of both applicants were identical.

However, notwithstanding how the loan has been set up, I do think that Tesco at the very least ought to have double checked with Miss M about whether this was a joint loan and taken some steps to verify what her actual monthly income was.

Tesco could've gone about checking Miss M's income a number of ways, it could've asked for copy payslips, bank statements or used one of the income verifications tools that has been made available by third parties.

As Tesco didn't seek to clarify and check Miss M's income, I've gone onto to consider what Tesco may have seen had it made better checks. Although I don't have copy payslips, Miss M's representative in an email to us confirmed her income was around £2,452 per month. So marginally more than what Tesco ought to have used for the affordability assessment had this been treated as a single application. But what this does mean is that on balance, had Tesco taken steps to check Miss M's income then it would've ended up with a figure of at least £2,409 per month.

As part of its review of Miss M's living costs Tesco used information from the credit search (which I'll come on to below) as well as information from the Office of National Statistics (ONS). Taking on board what Miss M declared as well as reviewing her credit file and ONS data it believed her monthly outgoings came to £3,017. Tesco, therefore concluded Miss M had sufficient disposable income to afford her repayments – but only on the basis that Miss M's income was over £4,000 per month. Which was incorrect, given the error that it ought to have known about with the application.

So based on the incorrect income figure the loan appeared affordable. But we know and Tesco now accepts that Miss M's income wasn't as high as was declared in the application. As such as the ONS data that it used showed the loan was unaffordable – as the outgoings exceeded her income.

However, had this been set up as a sole application, which is what it ought to have been then Tesco would've used a combination of different figures as part of its affordability assessment. And using statistical data is allowed under the rules that Tesco needed to have followed, and there wasn't anything as far as I can see that ought to have led to probe more closely into Miss M's outgoings. And this is where the joint application has caused problems for the affordability assessment, as the application was assessed as joint. This meant that Tesco took account of joint cost of living payment for example. Whereas, Tesco has provided evidence of the outgoings it would've used had the application been set up as a single person and used Miss M's correct income.

Tesco has shown that it would've calculated the loan repayment amount of £241 along with the existing credit file commitments of £285 per month. To this it added the declared housing costs of £600 per month, and what it calls cost of living payments – this is the statistical data from the ONS of £768 per month along with a further buffer of £144. The result is that, after all of the above costs were taken into account the loan looked affordable.

These are the figures that Tesco ought to have used at the time the loan was approved, and would've been used had it identified the issue with the application. However, the figures it has now provided are fair and Tesco was entitled to use all of the information it had. Bearing in mind that Tesco can use statistical data to establish living costs given the results it received from the credit reference agency that I come on to discuss below.

Tesco, as part of its affordability assessment carried out a credit search and it has provided a summary of the results it received from the credit reference agency. I want to add that although Tesco carried out a credit search there isn't a regulatory requirement to do one, let alone one to a specific standard. This can and does mean information which is given to a lender may be different to what a

consumer can see by reviewing her own report. But what Tesco needed to do was consider the results it received.

Tesco was told Miss M owed just over £7,700 to other creditors, and it was costing £285 per month to service her existing debt – and this figure was used as part of the original affordability assessment or the recent re-run one – which as I've said about ought to have been the one used by Tesco at the time the loan was granted.

However, the credit file data wouldn't have given Tesco any cause for concern – it knew that there were no defaults, missed payments, delinquent accounts, County Court Judgements or any other type of insolvency. There were no indicators that Miss M was or likely having financial difficulties.

The credit checks results indicated that Miss M had a relatively small amount of debt that she was serving without any difficulties. Overall, the results wouldn't have been of a concern to Tesco and so there was no indication that it either needed to carry out further checks or to have declined Miss M's application based on the credit check results.

It therefore follows that had Tesco taken steps to confirm Miss M's income and clarify the application status of the loan then it would've decided the loan was affordable for her and so would've still lent to her. So, so I'm not upholding her complaint about this loan, and I make no award against Tesco.

Finally, an outstanding balance remains due, and I would remind Tesco of its obligation to treat Miss M fairly and with forbearance.

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.

No new comments were provided by Tesco, but Miss M's representatives has said that the bank statements needed to have been reviewed to work out what her living costs likely were.

But to be clear, when I said in the provisional decision that Tesco needed to check Miss M's income and I explained that using bank statements was just one of the methods Tesco could've utilised in order to check this. But there were other ways, such as asking for a copy payslips.

But, in the circumstances of this case, I didn't use the bank statement to verify Miss M's income – I used the testimony provided by her representative. Indeed, bank statements haven't been provided as part of Miss M's complaint. As I set out in the provisional decision, the testimony indicated the monthly income Tesco ought to have used was broadly in line with what Miss M received. So, when Tesco re-ran the affordability assessment I'm satisfied it used an accurate income amount for Miss M.

But Tesco, has confirmed that when it realised there was an error – it asked its credit risk team to re-run the affordability assessment – based on Miss M's correct monthly income of £2,409. Which is the income that Tesco ought to have used at the time of the application.

In this instance, the ONS value would've been less than it was for the joint applicant because this figure is based on a percentage of the income – rather than a flat amount for all applicants. I'm satisfied that had Tesco used the correct income for the affordability assessment the statistical data would've shown the loan to be affordable. I'm satisfied that had Tesco used the correct income figure for its application the checks it carried out showed the loan repayments were affordable.

In the circumstances, I don't think Tesco needed to do more, such as reviewing Miss M's bank statements. There wasn't anything else, in the data that Tesco received which meant it wouldn't have been unreasonable of it to have used the ONS data for the purpose of the affordability assessment – for example the credit checks carried out by Tesco didn't show any impaired history. In those circumstances I do think it was fair for Tesco to have relied on a combination of what Miss M declared, her credit file data and the ONS figures.

As this is the case, I think Tesco made a fair lending decision and I'm not upholding Miss M's complaint.

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 Miss M or otherwise treated her 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.

My final decision

For the reasons I've explained above and in the provisional decision, I'm not upholding Miss M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss M to accept or reject my decision before 18 April 2025.

Robert Walker
Ombudsman