

The complaint

Mrs M complains that Barclays Bank UK PLC trading as Tesco Bank gave her a loan she couldn't afford to repay.

What happened

In January 2019 Tesco Bank gave Mrs M a loan of £20,000 to be repaid over 120 months (10 years). The monthly repayments were £288.16 and the total cost of the loan, including interest, was £34,579.20. Mrs M applied for the loan online and Tesco Bank has recorded the purpose of the loan as home improvements.

Mrs M says Tesco Bank shouldn't have agreed this loan. She says she was on a low income and couldn't afford to repay the loan.

Tesco Bank considered her complaint but disagreed. It argued it completed sufficient checks before agreeing to lend and that based on these checks, Mrs M could have afforded to repay the loan.

One of our investigators considered the complaint but didn't agree. They didn't think that Tesco Bank had completed proportionate checks. And they thought that had Tesco Bank done so, it would have seen that Mrs M couldn't have afforded to repay this loan. Tesco Bank didn't agree and so the complaint has been passed to me to consider.

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.

I've read everything that the parties have said, but I'll concentrate my comments on what I think is relevant. If I don't comment on a specific point it's not because I've failed to consider it, but because I don't think I need to comment in order to reach a fair and reasonable outcome. And our rules allow me to do this. This reflects the nature of our service as a free and informal alternative to the courts.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. I have used this approach to help me decide Mrs M's complaint.

Tesco Bank needed to make sure it lent responsibly to Mrs M. It therefore needed to complete sufficient checks to determine if Mrs M could afford to sustainably repay the lending. Our website sets out our approach to what we typically think when deciding if a lender's checks were proportionate. There is no set list of checks a lender should do, but there is guidance on the types of checks a lender could complete. However, these checks needed to be proportionate when considering things like the amount and term of the lending, what the lender already knew about the consumer, etc.

Before agreeing to lend, Tesco Bank gathered details of Mrs M's income and recorded her net monthly income as £1,696. It completed a credit search which showed no adverse

information such as IVA's or CCJs. It showed she had existing credit of £13,209 of which £9,704 was loan debt and said that her current repayments for existing credit were estimated to be £510 per month. It also asked her about her housing costs and estimated her other essential expenditure using Office of National Statistics data. Tesco Bank has said Mrs M declared £206 for her mortgage and it estimated £360 for other living costs.

I've considered the checks Tesco Bank completed and I also don't think they were proportionate. Whilst I'm mindful that Tesco Bank has taken steps to gather information about Mrs M's income, estimated expenditure and existing credit commitments, I don't think these checks went far enough. Mrs M had declared a net monthly income of just under £1,700 per month and she was taking a substantial loan of £20,000 to be repaid over 10 years. I think given her relatively modest income and the amount and term of the loan, Tesco Bank should have taken additional steps to check if the lending would be sustainably affordable over the full term. So, I think Tesco Bank needed to take additional steps to verify her actual income and essential expenditure before agreeing the loan.

Mrs M has provided copies of her bank statements for two current accounts, and I've used this information to gain a picture of her actual income and essential expenditure in the months leading up to this loan being given. For the avoidance of doubt, I'm not saying that Tesco Bank should have reviewed her bank statements in order to complete proportionate checks. However, in order to recreate what proportionate checks would have most likely uncovered I think this is reliable information to use.

From her bank statements I can see that her average income was actually less than what she declared, at just under £1,400 per month. I note in December 2018 her pay increased slightly, but she's said this was a result of a bonus and holiday pay. So typically, she earnt just under £1,400, but even if I were to average the three months of statements I have this would still equal just over £1,500 net per month. I've also considered the essential expenditure for things like her mortgage, bills, insurances, etc. and together with her existing credit commitments, I don't think she had sufficient disposable income to sustainably repay this loan over the full term. So, I think if Tesco bank had completed sufficient checks before agreeing this loan, I think it would have seen that it wasn't reasonable to lend.

I appreciate Tesco Bank has argued that as Mrs M was married and held a joint mortgage, a 50/50 split in expenditure should be accounted for when considering her essential expenditure. It's said this is a standard way of approaching expenditure and it wouldn't be reasonable to expect Mrs M to take full responsibility for the expenditure the investigator quoted. However, I can't see Tesco Bank took any steps to verify this assumption at the time of lending or provided much to support these assumptions now. Essentially, without exploring her spouse's income and any other essential expenditure they may have had, I don't agree it's reasonable (particularly given the size and term of this loan) to assume Mrs M's contribution to household bills and the mortgage was 50%. And whilst during the application she declared a mortgage amount which was similar to 50% of her actual mortgage, this isn't definitive to suggest all expenditure was split 50/50. In any event, I've also explained above why it wasn't reasonable to rely on her declarations without further verification.

I asked Mrs M for details of her spouse's income, and she said they didn't have permanent employment at this time. She said they helped out on an ad hoc basis when they could, but that she was responsible for most of the expenditure seen on her statements. Looking at her statements, I can see some small transfers which are likely to be from her spouse (although there are also transfers going back out to the same source). However, I can't see regular consistent transfers which suggests another party was regularly contributing to the majority of the bills and mortgage payments. So, I don't think it's now reasonable to reduce her essential expenditure estimates to reflect that.

Tesco Bank has argued that Mrs M maintained her repayments for around five years, suggesting the loan was affordable for her. It was only more recently, when Mrs M went on maternity leave, that she hasn't been able to maintain her payments. However, just because Mrs M has largely been able to meet the loan repayments, this doesn't demonstrate she was able to do so in a sustainable way. I also note Mrs M has said she needed to borrow at times in order to meet her loan repayments. This again supports the argument that this loan wasn't sustainably affordable for her.

I've considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mrs M in the circumstances of her complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

Putting things right

As I don't think Tesco Bank ought to have opened the account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Mrs M should pay back the amount she borrowed. Therefore, Tesco Bank should add up the total repayments Mrs M has made and deduct these from the total amount of money Mrs M received.

- a) If this results in Mrs 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 account from Mrs M's credit file.
- b) If any capital balance remains outstanding, then Tesco Bank should arrange an affordable and suitable payment plan with Mrs M. Once Mrs M has cleared the balance, any adverse information in relation to the account should be removed from her credit file.

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

My final decision

For the reasons explained above, I uphold this complaint against Barclays Bank UK PLC trading as Tesco Bank.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M to accept or reject my decision before 22 December 2025.

Claire Lisle
Ombudsman