

Complaint

Mr E has complained about personal loans Tesco Personal Finance PLC (trading as “Tesco Bank”) provided to him. He says that better checks would have shown that he shouldn’t have been provided with these loans.

Background

Tesco Bank provided Mr E with three loans in total.

Tesco Bank initially provided Mr E with a loan for £6,000.00 in July 2021. This loan had an APR of 3.5% and the total amount due of £6,540.00 was due to be repaid in 60 monthly instalments of just under £110.

Mr E was then provided with a second loan in May 2021. This loan was for £10,000.00 and had an APR of 2.9% as well as a 60-month term. This meant that the total amount due of £10,744.20 was due to be repaid in 60 monthly repayment of just under £180.

Finally, Tesco Bank provided Mr E with a third loan in December 2021. This loan was also for £10,000.00 over a 60-month term. But this time Mr E received an APR of 7.9% and this meant that the total amount due of £12,037.20 was due to be paid in 60 monthly instalments of around £200.

It’s worth noting that Tesco Bank agreed a fourth loan with Mr E in November 2021. However, Mr E withdrew from the agreement during the cooling off period. And no interest was charged. So we’ve not included this in our assessment of Mr E’s circumstances.

One of our investigators reviewed what Mr E and Tesco Bank had told us. And he thought that Tesco Bank hadn’t done anything wrong or treated Mr E unfairly. So he didn’t recommend that Mr E’s complaint be upheld. Mr E disagreed and asked for an ombudsman to look at his 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.

Having carefully considered everything, I’ve decided not to uphold Mr E’s complaint. I’ll explain why in a bit more detail.

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 Mr E’s complaint.

Tesco Bank needed to make sure that 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 Mr E 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 Mr E's applications after he provided details of his monthly income and some information on his expenditure. It says it cross-checked this against information on a credit searches it carried out on the respective occasions. In its view, all of this information showed Mr E could afford to make the repayments he was committing to.

On the other hand, Mr E has said he should never have been provided with these loans.

I've carefully thought about what Mr E and Tesco Bank have said.

Loans 1 and 2

The first thing for me to say is that I don't think that this was a case of Tesco Bank simply accepting an over-optimistic declaration of monthly disposable income at face value.

At the time of the first loan, Tesco Bank's credit searches showed that Mr E had a low amount of existing debt. And that they were being well managed. Furthermore, at the time of second loan Mr E's indebtedness had reduced even further.

I appreciate that Mr E says that this wasn't accurate. But I've seen the credit check information that Tesco Bank received. And I think that it was entitled to rely on this information. For the sake of completeness, I'd also add that the very low interest rate that Mr E received on his loans supports Tesco Bank not knowing that Mr E was indebted in the way that he was.

Equally as these were Mr E's first loans with Tesco Bank, I'm satisfied that it was reasonably entitled to believe that it wouldn't be increasing Mr E's existing indebtedness in a way that was unsustainable or otherwise harmful either.

So I'm satisfied that Tesco Bank's checks before providing this loan were proportionate. And I'm not upholding Mr E's complaint about this loan.

Loan 3

Tesco Bank appears to have carried out similar checks for loan three as it did for loans 1 and 2. However, given this was in effect Mr E's fourth loan application (including the withdrawn loan), I do think that Tesco Bank needed to find out more about Mr E's living expenses before agreeing to provide this loan to him. This was especially as Mr E was more indebted than he was at the time of the first two applications.

However, having looked at the bank statements Mr E has provided to us, which does appear to contain his household living expenses, I can't see anything obvious in them which indicated Mr E wouldn't be able to make the repayments to this loan. Indeed, when Mr E's living expenses from these statements are added to what Tesco Bank had already found out about his existing credit commitments, all of this information appears to suggest that he had the disposable income to be able to make the repayments required here.

I accept that Mr E says he experienced difficulty making the payments. And I'm sorry to hear the reasons for this. I know that Mr E has offered to provide bank statements from other accounts to show why this was the case. But as obtaining bank statements wasn't the only way for Tesco Bank to have found out about Mr E's living expenses – it could have instead asked for copies of bills etc – I don't think Tesco Bank could reasonably be expected to know what was going on across all of Mr E's accounts. So I don't think Tesco Bank can reasonably be expected to know what Mr E has told us about.

As this is the case, I don't think that Tesco Bank did anything wrong when deciding to provide loan three to Mr E either. In my view, proportionate checks would more likely than not have suggested the repayments were affordable and I don't think that there was a need for Tesco Bank to obtain bank statements from multiple accounts.

I'm therefore not upholding the complaint about loan three either.

So overall I don't think that Tesco Bank treated Mr E unfairly or unreasonably when providing him with his loans. And I'm not upholding Mr E's complaint. I appreciate this will be very disappointing for Mr E. But I hope he'll understand the reasons for my decision and that he'll at least feel his concerns have been listened to.

My final decision

For the reasons I've explained, I'm not upholding Mr E's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr E to accept or reject my decision before 12 February 2024.

Jeshen Narayanan
Ombudsman