

Complaint

Mr D has complained about a personal loan Tesco Personal Finance PLC (trading as “Tesco Bank”) provided to him.

He says that he doesn’t think that the appropriate checks were conducted as if they had been he wouldn’t have been lent to.

Background

Tesco Bank provided Mr D with a loan for £8,000.00 in May 2019.

Mr D’s loan had an APR of 9% and a term of 60 months. This meant that the total amount to be repaid of £9,882.00, which included interest, fees and charges of £1,882.00, was due to be repaid in 60 monthly instalments of £164.70.

One of our investigators reviewed what Mr D and Tesco Bank had told us. And she thought that Tesco Bank hadn’t done anything wrong or treated Mr D unfairly. So she didn’t recommend that Mr D’s complaint be upheld.

Mr D disagreed with our investigator’s assessment 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.

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 D’s complaint.

Having carefully considered everything, I’ve not been persuaded to uphold Mr D’s complaint. I’ll explain why in a little more detail.

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 D 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 D's application 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 search it carried out. In its view, all of this information showed Mr D could afford to make the repayments he was committing to.

On the other hand, Mr D has said he should never have been provided with this loan because of his existing indebtedness and financial position.

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

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

Tesco Bank's credit searches did show that Mr D had some existing debts. But it's fair to say that these weren't excessive and that at the time of the application at least, they were being reasonably managed. I appreciate that Mr D has disputed the amount he was deemed to be indebted by and in particular he's provided bank statements showing that he was overdrawn and the reasons for this.

But even if Mr D was overdrawn by as much as £4,000.00 I don't think that this would have meant that Tesco Bank shouldn't have lent to him, or that this means that Tesco Bank had to ask him for copies of his bank statements. I say this as Mr D could quite easily have cleared an overdraft of £4,000.00 with some of the funds he was being advanced through this loan – especially as it had a much lower interest rate than any overdraft.

I accept that Mr D says he experienced difficulty making the payments. And I'm sorry to hear this. But it's only fair and reasonable for me to uphold a complaint in circumstances where a respondent firm did something wrong. Tesco Bank could only make a decision on the basis of the information it had.

Given the amount of the monthly payments and the lack of obvious indicators of any recent difficulty in the information Tesco Bank did obtain, I don't think that it was unfair for Tesco Bank to have concluded that there wasn't a need to obtain further information.

Equally given what it saw and this being a first loan, I'm satisfied that Tesco Bank was reasonably entitled to believe that it wouldn't be increasing Mr D's existing indebtedness in a way that was unsustainable or otherwise harmful either.

As this is the case, I don't think that Tesco Bank did anything wrong when deciding to lend to Mr D - it carried out proportionate checks and reasonably relied on what it found out which suggested the repayments were affordable.

So overall I don't think that Tesco Bank treated Mr D unfairly or unreasonably when providing him with his loan. And I'm not upholding Mr D's complaint. I appreciate this will be very disappointing for Mr D. 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 D's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr D to accept or reject my decision before 6 November 2023.

Jeshen Narayanan
Ombudsman