

The complaint

Mr S complains Sainsbury's Bank Plc lent to him irresponsibly when it approved a personal loan.

He brings this complaint with the assistance of his daughter but for ease of reading I shall refer to Mr S.

What happened

In July 2018 Mr S contacted Sainsbury's Bank by telephone to apply for a loan. He already had an existing customer relationship with it, holding a joint loan with his wife from 2015. Sadly, their son died, and he needed to borrow money to pay for the funeral.

A loan of £8,000 was approved for Mr S in his sole name to be repaid over 60 months at £157.96 per month. £2,499 of the loan was used to repay the existing lending and a further £5,500 was paid into his bank account for the intended purpose.

Unfortunately, Mr S suffered another personal tragedy when his wife died. He contacted Sainsbury's Bank in January 2021, explaining he'd struggle to make the repayments as his wife's pension and benefits had stopped. He asked if it could do something to help.

Sainsbury's Bank went through an income and expenditure assessment with Mr S and calculated that after all his outgoings he would have £46 left. It said it could set up a repayment plan of £45 per month but that to do this, it would have to default the loan. Mr S didn't want a negative marker on his credit file. He said that as a tenant he'd find it difficult to get another tenancy. He asked if Sainsbury's Bank could make the loan affordable by extending the term. But it said it couldn't because he didn't meet its criteria.

Mr S complained Sainsbury's Bank shouldn't have granted him the loan. He didn't believe he was in the right mind when he applied for it and he didn't think it had carried out proportionate checks to find out if he could afford the loan - he couldn't recall being asked for any information. He said the payments had been a struggle and he'd only been able to make these with the help of family.

Sainsbury's Bank responded to the complaint. It said that it had considered the information Mr S had provided during the application for the loan, undertaken a credit search and considered its lending criteria. And having done so, it didn't think it had lent irresponsibly. Also, the loan had been for legitimate purposes.

Sainsbury's Bank went on to say it had passed Mr S's loan to its specialist team given his vulnerability and it had put collections activity on hold to give him some space. It arranged to cancel his direct debit for the loan but said it couldn't extend the loan term because there wasn't enough disposable income for the arrangement to work. Overall, Sainsbury's didn't think it had treated Mr S unfairly.

Mr S didn't agree so he referred his complaint to us. In April 2021, Sainsbury's Bank defaulted the loan and set up a payment arrangement for £31.18 per month, starting in June 2021.

One of our investigators considered what had happened. He agreed that Sainsbury's Bank had not carried out appropriate checks before approving the loan. Had it done so, he thought it was unlikely the loan would have been approved. He noted that while Mr S had declared he had an income of £17,500 a year, this wasn't correct. On further review he couldn't see Sainsbury's Bank had asked Mr S for any information to check the accuracy of these details or requested details of his other expenditure apart from his monthly rent. He also concluded Sainsbury's Bank had significantly underestimated Mr S's expenditure using ONS data. To resolve the matter, the investigator thought that any loan payments that had been made should be deducted from the capital amount of the loan and all interest and charges should be removed. He also recommended it remove any adverse information about the loan with the credit reference agencies. Sainsbury's Bank didn't agree with the investigator's view.

It reiterated it had relied on the information Mr S had given it about his income and rent, looked at his payment history on his previous loan and relied on ONS data to estimate his other expenditure. Having done this, it didn't consider it was reasonable or proportionate to request anything else to assess the loan's affordability. It felt the investigator had viewed the case with the benefit of hindsight taking account of information he'd obtained now, which wasn't the right approach. It added that the details Mr S had provided and the credit bureau checks suggested there would be no issue with the payments being made and that the loan had been repaid for over two years with no issue, until his wife had died.

Mr S accepted the investigator's assessment though pointed out it would still take him twelve years to repay the outstanding balance after his loan was reworked to reflect any redress. Our investigator did not change his mind, so the case has been passed to me.

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.

Before agreeing to approve the loan, Sainsbury's Bank needed to make proportionate checks to determine whether the borrowing was affordable and sustainable for Mr S to repay. There's no prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include - but are not limited to, the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances.

Mr S was entering into a significant financial commitment. He was looking to borrow enough money to repay his existing loan on which he and his wife had originally borrowed £6,000 and there was around £2,500 still left to repay. He also wanted to borrow new funds. He told Sainsbury's bank that he had a sole annual income of £17,500. The information Mr S had provided in relation to his income wasn't accurate – it was more reflective of household income rather than his own. But I don't think the income figure itself would've been a reason for Sainsbury's Bank to question things.

I do understand Sainsbury's Bank's position in that the credit bureau checks didn't highlight any concerns about Mr S's ability to manage credit nor did the payment history on the existing loan. But where I disagree with it is on whether it should have looked into things further based on what other information it had available before it approved the loan.

I have looked at the affordability and indebtedness information Sainsbury's Bank has provided. This is the assessment it did at the time of the loan application. After working out the net monthly income, accounting for the rent and ONS data figures about Mr S's other household expenditure and payments towards other existing debt, this left Mr S with a monthly disposable income of £249.16. This is the figure Sainsbury's Bank worked out. It's important to note that this figure didn't include Mr S's monthly loan repayment at this point.

Based on the loan of £8,000, Mr S's new monthly commitment was going to be £157.95. This is noted in the call during the loan application. So, this would have left him with £91.21 for any other expenditure that may arise, including any emergencies. When taking this information into consideration with the ONS data, which wasn't Mr S actual expenditure but modelled data, I think a prudent lender would have wanted to undertake some additional checks to satisfy itself that the loan repayments would be comfortably affordable and sustainable over the term. Because the disposable income figure was tight.

Sainsbury's Bank needed to bear in mind what if anything changed over the five-year term. And in this specific case I think this legitimately opened the question, would the new monthly repayments have a significant adverse impact on Mr S?

One of the things, Sainsbury's Bank could have done to make some additional enquiries would have been to ask to see Mr S current account statements for the months leading up to the loan, so that it could take a closer look at his financial situation. Had it done so, the true position with the income would likely have come to light and it would have seen that while Mr S was managing to pay the loan payments on his existing loan (which were lower than those proposed for the new loan), based on actual expenditure there was generally more money going out each month than was coming in. And the expenditure was a lot higher than the ONS data figures. I think if in possession of this information Sainsbury's Bank would've realised there was a risk Mr S wouldn't be able to sustainably repay his loan over the term and this would cause him to suffer adverse financial consequences.

Thinking about all of this, in conclusion I don't think Sainsbury's Bank carried out proportionate checks in this individual case based on what it knew and I don't believe the lending decision was fair. It follows Sainsbury's Bank will need to take steps to put things right for Mr S. I will comment on this further below.

I've thought carefully about the fact that it might take Mr S a number of years to repay the capital on his loan. I've considered whether Sainsbury's Bank should write off what will be left. But I haven't seen a compelling reason for me to require it to do this now.

In addition to this, once Mr S contacted Sainsbury's Bank about his difficulties, I think it treated him fairly and in line with good industry practice. It carried out a detailed income and expenditure assessment and came to a payment arrangement. It also placed his account with its specialist team and suspended interest so that the debt wouldn't grow. So, I'm not going to ask it to do anything further on this aspect. But it will need to do something to resolve the complaint.

For the reasons given Sainsbury's Bank needs to rework the loan account as set out below. While I note Mr S repaid his previous loan with some of the funds from the new loan, I'm not going to ask Sainsbury's Bank to consider that as I think that can be accounted for in reflecting the impact the new lending has had on him.

Finally, I will remind Sainsbury's Bank of its ongoing obligation to treat Mr S positively and fairly in response to any financial difficulties.

My final decision

My final decision is that I uphold this complaint. I require Sainsbury's Bank Plc to do the following:

- Rework Mr S's loan of £8,000 so that all charges and interest are refunded to it.
- If Mr S has already paid more than £8,000, Sainsbury's should refund the overpayment to him together with interest at 8% simple (calculated from the date of the overpayment to the date the complaint settles).
- Remove any negative information about this loan from Mr S's credit file, including the default.
- Retain Mr S's loan account with the specialist team whilst there is a balance outstanding.
- Keep the payment arrangement under periodic review to ensure Mr S can continue to afford it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 7 June 2022.

Sarita Taylor
Ombudsman