

## **The complaint**

Mrs D has complained that Sainsbury's Bank Plc ("Sainsbury's") irresponsibly lent to her.

## **What happened**

Mrs D opened a credit card account with Sainsbury's in April 2003. Her credit limit was initially £500. Over the course of the next few years to September 2007 Sainsbury's increased Mrs D's credit limit seven times until it was £2,650. Intermittent increases over the period between January 2010 and December 2014 increased her limit to £6,400.

Mrs D says that Sainsbury's acted irresponsibly by providing her with the credit card and when it increased her limit. She says she was a student at the time she took out the credit card and was only working part-time. She says she felt coerced or 'talked into' taking the card when she was shopping in store. She explains that for many years she only paid off the minimum amount and that she has struggled to manage her debt.. She says if Sainsbury's had done adequate checks on her situation it would have seen that she wouldn't be able to repay her balance in a reasonable length of time.

Sainsbury's says it didn't lend irresponsibly to Mrs D and that it did all the necessary checks before it lent to Mrs D – and when it increased her credit limit.

Our investigator thought that Mrs D's complaint should be upheld from the point at which her credit limit was increased to £4,250 in July 2013. They thought that given how long Mrs D had remained indebted and making no impact on her existing borrowing that it should have been clear that Mrs D would struggle to afford the additional borrowing.

Sainsbury's disagreed. It said it had done sufficient checks and there were no indications of any financial strain.

As Sainsbury's disagreed the case has been passed to me to make a decision.

## **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.

We've set out our general approach to complaints about unaffordable and irresponsible lending - including the key relevant rules, guidance and good industry practice - on our website and I've taken that into account when I have considered Mrs D's complaint.

Sainsbury's needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mrs D could afford to repay what she was being lent in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and Mrs D's income and expenditure. With this in mind, in the

early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate. And Mrs D hasn't complained about the initial lending decision.

Certain factors might point to the fact that Sainsbury's should fairly and reasonably have done more to establish that any lending was sustainable for Mrs D. These factors include things like understanding Mrs D's income, the total amount Mrs D borrowed, and the length of time Mrs D had been indebted.

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

The account was opened over 19 years ago, so it is not surprising that Sainsbury's doesn't have a record of the checks it completed at the time – or of the checks it conducted relatively early in its lending relationship with Ms D. Until 2018 Sainsbury's credit card services were administered by a different bank, so there is limited information available about large parts of the account history.

When Mrs D requested an increase in her credit limit Sainsbury's told us that it conducted a credit check. Sainsbury's told us there were no signs of financial difficulties based on the checks it did but hasn't been able to provide a copy of those checks. It has been able to provide a copy of the application form, which confirms that Ms D was working part-time earning about £4,000 a year while a student. She was living at home with her parents. Given the information available to me I haven't seen anything which suggests the lending was inappropriate or unaffordable for Mrs D.

Over the following seven years Mrs D's credit limit was increased in increments eight times, from £500 to £3,450. Again, there is no information from Sainsbury's about what checks were done to make sure these were affordable for Mrs D. Mrs D has been able to provide some bank statements which show that Mrs D had a regular income and was using her agreed overdraft of up to £700 more frequently than not. Looking at the transactions it appears possible she took a loan in 2009 as well as a credit card with another company. But there is nothing I can rely on to suggest that Sainsbury's acted irresponsibly in relation to these credit limit increases.

In July 2013 Sainsbury's increased Mrs D's credit limit from £3,450 to £4,250. Sainsbury's says that its check revealed that her unsecured debt elsewhere had reduced significantly, indicating that it was reasonable to assume further lending would be suitable.

It's not clear whether that unsecured debt elsewhere was a loan which had been repaid, or whether it was a credit card which continued to offer a revolving credit facility.

Looking at the management of Mrs D's account up to this point I can see that Mrs D exceeded her credit limit a few times in 2011 and 2012, and she was always using a very high proportion of her credit limit at other times. Mrs D was only making minimum payments on her credit card and for the six months leading up to the credit limit increase in July 2013 she was using 99% of her credit limit.

I think with that information available to Sainsbury's about the way Mrs D was managing her account it should have made further enquires before it provided another credit limit increase. I don't have a copy of Mrs D's credit file but Mrs D's bank statements from the time show that she was only in credit on her current account for one a month (the day she got paid) most months. I think if Sainsbury's had at least asked about her income and expenditure it would have realised that she was not able to sustainably repay any more credit. So, I think it was irresponsible for Sainsbury's to increase her credit limit again at this point.

## **Putting things right**

As I don't think Sainsbury's should have increased Mrs D's credit limit from £3,4500, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Mrs D has had the benefit of all the money she spent on the account so I think she should pay this back. Therefore, Sainsbury's should:

- Rework the account removing all interest and charges that have been applied to balances above £3,450.
- If the rework results in a credit balance, this should be refunded to Mrs D along with 8% simple interest per year\* calculated from the date of each overpayment to the date of settlement. Sainsbury's should also remove all adverse information recorded from July 2013 regarding this account from Mrs D's credit file.
- Or, if after the rework the outstanding balance still exceeds £3, 4500, Sainsbury's should arrange an affordable repayment plan with Mrs D for the remaining amount. Once Mrs D has cleared the outstanding balance, any adverse information recorded after July 2013 in relation to the account should be removed from her credit file.
- If Sainsbury's has sold the debt to a third party, it should arrange to either buy back the debt from the third party or liaise with them to ensure the redress set out above is carried out promptly.

\*HM Revenue & Customs requires Sainsbury's to deduct tax from any award of interest. It must give Mrs D a certificate showing how much tax has been taken off if she asks for one. If it intends to apply the refund to reduce an outstanding balance, it must do so after deducting tax.

I understand that Mrs D has a current repayment plan with Sainsbury's. Sainsbury's should contact Mrs D to understand whether she would prefer to continue with her current payment plan which should mean her debt is paid off more quickly, or whether she would prefer to adjust the amount of her payment so that it is paid off at the same time by making a lower payment each month.

## **My final decision**

I uphold Mrs D's complaint in part and direct Sainsbury's Bank Plc to compensate Mrs D in the way I have described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs D to accept or reject my decision before 17 November 2022.

Sally Allbeury  
**Ombudsman**