DRN-3716147

The complaint

Mr and Mrs M complained that Sainsbury's Bank Plc ("Sainsbury's") irresponsibly granted them a personal loan that they couldn't afford to repay.

What happened

Mr and Mrs M took out an unsecured loan with Sainsbury's in April 2016. The loan amount was £8,000.00, repayable over 60 months at a monthly cost of £181.65. Mr and Mrs M said the loan was repaid in January 2020 when they increased the mortgage on their home.

Mr and Mrs M complained that Sainsbury's failed to conduct reasonable and proportionate checks before granting the loan. They thought that Sainsbury's ought to refund the interest and charges on the loan. Sainsbury's said that it had carried out appropriate checks, and told Mr and Mrs M that it did not uphold their complaint.

Mr and Mrs M then brought their complaint to this service. Our investigator looked into it but didn't think it should be upheld. Mr and Mrs M didn't agree and asked for it to be reviewed by an ombudsman.

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.

Our approach to considering complaints about unaffordable and irresponsible lending is set out on our website, and I've taken this into account here.

I've decided not to uphold Mr and Mrs M's complaint. I'll explain why.

In summary, before providing credit, lenders need to complete reasonable and proportionate affordability checks. There isn't a set list of checks required of a lender, but it needs to ensure they are proportionate when considering things such as the type and amount of credit being provided, the size of the regular repayments, the total cost of the credit and the consumer's circumstances. So I've considered whether Sainsbury's completed reasonable and proportionate checks to satisfy itself that Mr and Mrs M would be able to make the repayments on the loan account in a sustainable way.

Mr and Mrs M said that, at the time of the application, Mr M had a number of other credit commitments, including credit cards that had balances very near the limit. The also said that the monthly payment formed a high proportion of Mr M's income – they said his net monthly income was £790. However, this was a joint loan, so I have considered the information available for both parties – not just Mr M.

Sainsbury's sent in details of the credit checks it carried out. It said that, at the time of application, Mr and Mrs M had stated an income of around £20,000 each. Sainsbury's further said that it had decided the loan was affordable based on the disposable income of both applicants in relation to number of dependants, household composition, combined net monthly income and existing indebtedness. And both applicants had a history of managing debt with no adverse data recorded on their credit histories.

From the evidence Sainsbury's sent in, I think its checks were reasonable and proportionate. Mr and Mrs M were both employed full-time. The credit commitments that I noted earlier were reflected in the checks, both in terms of the amount outstanding and the monthly repayments required, which Sainsbury's said it took from credit reference agency records. Sainsbury's also took account of the mortgage payments that Mr and Mrs M had stated, as well as an estimated figure for outgoings based on national statistical data. These checks showed a figure for disposable income well in excess of the repayments on the loan it was considering. There was nothing to suggest any difficulties with repaying the existing credit commitments or a potential difficulty in maintaining payments on the new loan.

Mr and Mrs M sent in copies of their credit histories and bank statements from around the time they took out the loan. Having reviewed these documents, I can't see anything that contradicts the information that Sainsbury's took from the credit checks when granting the loan.

Following our investigator issuing her view that the complaint should not be upheld, Mr and Mrs M sent in further information. In summary, they said that had Sainsbury's reviewed Mr M's pattern of previous borrowing, his finances and indebtedness were deteriorating, and he was reshuffling finances and using cards for day to day living expenditure - he was making minimum repayments on all of the cards and felt trapped in a cycle of debt. Mr and Mrs M also said that their disposable income was supplemented by benefit payments in relation to their child's medical condition, but this was not expected to be a long-term arrangement, and that Sainsbury's could have verified their commitments but instead relied on modelled data. They further said that in January 2020, when the loan was repaid, they increased their mortgage to pay off the loan, and indeed took out an additional loan on top of that. Additionally they referred to two other complaints that Mr M had brought to this service which also related to irresponsible lending, and which had been upheld.

Although I have set out a summary of the information rather than all of the detailed points, I have carefully considered everything Mr and Mrs M said.

As I explained, I have reviewed the documents Mr and Mrs M sent in, as well as the evidence provided by Sainsbury's. The income figures were shown as being as stated by Mr and Mrs M, but I don't have information about what level of detail would have been required on the online application, so I can't tell how Mr and Mrs M would have recorded the benefit payments they mentioned – or even if they did so. However, looking at the benefit amount shown on the bank statements, I don't think this would have affected the lending decision. Sainsbury's said that the information on their credit commitments was taken from credit reference agency reports, and I've no reason to doubt that. So the only modelled data was that for their household expenditure. I don't think this was unreasonable, given that the credit checks showed no problems with their existing commitments, and that the existing amount of unsecured credit relative to their joint income was not overly high.

Looking at the credit reports, I can see that Mr and Mrs M have taken out various credit cards and loans, many of which have been settled, but a number of these show start dates after the Sainsbury's loan was granted. I can also see that the amount Mr and Mrs M borrowed in 2020 was much higher than the amount required to settle the Sainsbury's loan, so it's not clear whether they may have been consolidating other debts or increasing their overall borrowing at that point. But I don't think that has a bearing on their 2016 loan.

Based on the information provided by all parties about the situation in 2016, I haven't seen anything that leads me to think that Sainsbury's decision to lend was not a reasonable one.

The historical information on the credit files shows no missed payments on any of the credit commitments, although I accept there's no information on the amounts paid (I also note that no payments were missed on the Sainsbury's loan).

I've also kept in mind that a number of Mr and Mrs M's comments refer to Mr M's commitments. I've thought carefully about those. I can see that Mr M had a number of credit cards, and he sent in information about the balances at the time of the application. I accept that some of these were close to their limit, although on the other hand the credit limits on the cards were not especially high. As I noted above, the total balances were reflected in the credit checks that Sainsbury's carried out, so there's nothing to suggest that that borrowing wasn't considered, along with the repayments that would've been required. And this was a joint loan, so the lending decision was based on Mr and Mrs M's overall situation, not just that of Mr M. Taking into account their joint circumstances, I can see no evidence that they would've been unable to make the loan repayments in a sustainable way – as I noted above, Sainsbury's credit checks showed a figure for disposable income well in excess of the repayments on the loan.

Finally, I note Mr and Mrs M's comments about other complaints being upheld. Whether a complaint is upheld or not depends on the individual circumstances, so I cannot draw conclusions from those complaints in determining this one. So I can't comment further on those complaints, other than to note that they appear to involve lending decisions taken *after* this loan was granted, so don't reflect Mr and Mrs M's circumstances in April 2016.

Talking all this into account, I don't think Sainsbury's acted unfairly when approving the finance application in 2016, so I don't think Mr and Mrs M have lost out.

My final decision

For the reasons I've explained, I've decided not to uphold Mr and Mrs M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs M and Mr M to accept or reject my decision before 16 March 2023.

Jan Ferrari
Ombudsman