

The complaint

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

What happened

Miss P opened a credit card account with Sainsbury's in December 2010. Her credit limit was initially £1,850. In June 2012 Miss P's credit limit was increased to £2,450. Ten months later in April 2013 it was increased to £3,250. Finally, in April 2014 it was increased to £4,450.

Miss P says that Sainsbury's acted irresponsibly by providing her with the credit card and when it increased her limit. She says she was in an abusive relationship and her partner forced her to take out the credit. She was also experiencing a trauma response to that relationship which caused her mental health problems. Miss P says she was only receiving state benefits at the time she took out the card and that she was in a lot of debt elsewhere. 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 Miss P and that it did all the necessary checks before it lent to Miss P – and when it increased her credit limit.

Our investigator thought that Miss P's complaint should be upheld from the point at which her credit limit was increased to £2,450 in June 2012. She thought that there was sufficient evidence available to Sainsbury's at that point for it to understand that Miss P was in a poor financial position and unlikely to be able to sustainably repay any more 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 Miss P's complaint. Having done so, I agree with our investigator's view. That view was provided to both parties and is extremely comprehensive. In response to that view Sainsbury's suggests there is no evidence to support the investigator's findings.

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 Miss P

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 Miss P'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.

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 Miss P. These factors include things like understanding Miss P's income, the total amount Miss P borrowed, and the length of time Miss P 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.

Sainsbury's says it completed credit reference checks at the point of opening the credit card account in 2010. It says this didn't show any issues. It says it also considered the amount of existing debt Miss P had elsewhere and that this showed she had only £250 of extra borrowing elsewhere. Sainsbury's hasn't provided evidence of these checks, or the results of them. It has supplied a copy of Miss P's application form in which she said that she had an income of £24,000.

It seems that this may not have been accurate as Miss P has also provided evidence that shows she was receiving Employment Support Allowance (ESA) at the time of application and in the months leading up to it, which indicates she probably wasn't in full time employment. Sainsbury's was entitled to rely on the information Miss P gave it at the time of her application. However, Miss P has also provided information which suggests that the stated outcome of Sainsbury's check on her external credit can't be relied upon. From information supplied by Miss P I can see that in December 2010 she had a very high balance on other credit cards – at least £20,000. In December 2010 her accounts were in arrears with another lender and she had exceeded her credit limit. I appreciate that this information may not have fed through onto credit reference agencies' systems by the time of Miss P's application and it is only for this reason that I am not upholding Miss P's complaint from the point of the account opening. In making this decision I have also taken into account that while Miss P had very high credit balances elsewhere, she had also told Sainsbury's she had a much higher income.

Sainsbury's increased Miss P's credit limit in June 2012. It says that it did all the checks it should have done to make sure the increase was affordable for Miss P. Again, it hasn't been able to show evidence of the results of those checks.

Miss P has provided information which shows that her financial situation had not improved. She was using her Sainsbury's card almost exclusively to move substantial debt around through balance transfers. Her external unsecured debt was over £40,000 in June 2011 and I have no evidence to suggest this had changed substantially by June 2012. By this point, any credit checks completed by Sainsbury's should have shown a very different picture to that at the point of account opening, including in relation to her income.

As Sainsbury's have not been able to provide copies of the checks it did, I prefer to rely on the information provided by Miss P. And while I appreciate that Sainsbury's thinks there were no signs of distress on Miss P's Sainsbury's account I think the activity on the account – the multiple balance transfers – should have alerted Sainsbury's to the possibility Miss P had significant debt elsewhere, even if the checks it says it did didn't show this.

Sainsbury's says that it wouldn't decline a credit limit increase until there was £50,000 of external debt elsewhere. While that is Sainsbury's commercial decision to make it does not

mean that in Miss P's circumstances that was the fair or reasonable thing to do. Even on Miss P's declared income at the point of application this would equate to more than two years' gross salary for her. And repayments on such an amount of credit (assuming Miss P paid 5% of the outstanding balance a month, with no further interest incurred) would be £2,500 – in excess of the entire monthly net income for someone earning £24,000 per year. Indeed, this statement makes me conclude that little or no account was taken of Miss P's ability to sustainably repay her credit.

So, on balance, I am not satisfied that Sainsbury's acted reasonably or fairly in providing Miss P with the credit limit increase in 2012 because I think its checks should have shown that the additional lending was unaffordable for her.

Putting things right

As I don't think Sainsbury's should have increased Miss P's credit limit from £1,8500, I don't think it's fair for it to charge any interest or charges on any balances which exceeded that limit. However, Miss P 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 £1,850.
- If the rework results in a credit balance, this should be refunded to Miss P 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 June 2012 regarding this account from Miss P's credit file.
- Or, if after the rework the outstanding balance still exceeds £1,8500, Sainsbury's should arrange an affordable repayment plan with Miss P for the remaining amount. Once Miss P has cleared the outstanding balance, any adverse information recorded after June 2012 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.
- Sainsbury's should also pay Miss P £200 to compensate her for the distress and inconvenience she has experienced.

*HM Revenue & Customs requires Sainsbury's to deduct tax from any award of interest. It must give Miss P 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.

My final decision

I uphold Miss P's complaint about unaffordable lending from the point of the credit limit increase in June 2012. I direct Sainsbury's Bank plc to pay compensation as described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P to accept or reject my decision before 24 November 2022.

Sally Allbeury
Ombudsman