

The complaint

Mr B complains that Sainsbury's Bank Plc lent irresponsibly when it increased the credit limit on his credit card.

What happened

Mr B successfully applied for a credit card with Sainsbury's Bank in April 2014. A credit card with a limit of £2,500 was approved. In August 2016 Sainsbury's Bank increased the credit limit to £3,300. Sainsbury's Bank says the credit limit increase was approved in line with its lending criteria.

Sainsbury's Bank says it reviewed Mr B's financial circumstances in October 2020 and took the decision to reduce his credit limit to £3,250. In May 2021 the credit limit was reduced to £3,100. Sainsbury's Bank says the reduction reflects the high levels of unsecured borrowing it found in Mr B's name.

In December 2021 the account fell into arrears and a payment plan was agreed whereby Mr B made payments of £1 a month. Mr B brought the account back up to date in June 2022 and repaid the outstanding balance.

Last year, Mr B complained to Sainsbury's Bank and said it had lent irresponsibly when it approved his credit limit increase in August 2016. Sainsbury's Bank sent Mr B a final response but didn't agree it had lent irresponsibly. Sainsbury's Bank said it had completed the necessary checks before increasing the credit limit.

An investigator at this service looked at Mr B's complaint and upheld it. They thought Sainsbury's Bank should've completed better checks before increasing Mr B's credit limit. The investigator thought that, had it done so, Sainsbury's Bank would've found Mr B was unlikely to be able to support further borrowing. Sainsbury's Bank didn't agree and asked to appeal, so Mr B's complaint 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.

Our website sets out how we handle complaints relating to irresponsible lending. I've assessed Mr B's complaint in line with our approach. Sainsbury's Bank needed to ensure it lent responsibly. That means Sainsbury's Bank needed to complete proportionate checks to understand whether Mr B could afford to repay any credit it provided in a sustainable way. Generally, our approach is that 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.

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 had continued to carry out proportionate checks to ensure it lent in a responsible manner.

In this case, Sainsbury's Bank assessed Mr B's application in April 2014 and went on to increase his credit limit in August 2016, over two years later. I take Sainsbury's Bank's point that Mr B's account had been well managed with no missed payments. But I've looked at the available evidence to decide whether it would've been prudent to have completed more comprehensive checks before deciding whether to offer further borrowing. And I think the information recorded on Mr B's credit file, that was available to Sainsbury's Bank, showed a significant increase in unsecured borrowing during its relationship with Mr B.

When Mr B first applied in 2014 Sainsbury's Bank found he owed around £2,500 in unsecured debt. But by the time Sainsbury's Bank increased the credit limit, its credit file records show Mr B's total unsecured credit had substantially increased to £24,650. That's around ten times higher when compared with the original application. In my view, an increase in unsecured credit of this nature in a two year period shows something had changed in Mr B's circumstances. And I think it should've caused Sainsbury's Bank to have carried out better checks before increasing Mr B's credit limit.

There's no set list of checks a lender has to complete. One of the options available is to review income and outgoings by way of bank statements. There are other options open to lenders. Mr B's sent us his bank statements for the months immediately preceding the credit limit increase.

I've looked at Mr B's bank statements for the three month period before Sainsbury's Bank increased his credit limit. I calculated an average monthly income of around £1,230. Sainsbury's Bank says it found Mr B's regular monthly payments to cover his unsecured credit were £665 and the new credit limit took Mr B's payments to a maximum of £75 a month. That means Mr B needed to make £740 a month in payments to service his debts, leaving around £500 to cover his remaining living expenses.

Mr B's told us he was also contributing to the mortgage and household bills. And I think it's fair to say Mr B needed to cover everyday expenses for things like food, travel, clothing and entertainment. Had Sainsbury's Bank carried out more comprehensive checks and got a better understanding of Mr B's circumstances in August 2016, I think it would've found he wasn't in a position to repay the additional debt in a sustainable way. In my view, Sainsbury's Bank lent irresponsibly when it approved Mr B's credit card increase in August 2016.

As I think Sainsbury's Bank lent irresponsibly, I'm upholding Mr B's complaint. To resolve Mr B's case, I'm going to tell Sainsbury's Bank to refund all interest fees and charges applied to Mr B's account on balances above £2,500 from August 2016 to date. I understand Mr B's repaid the balance in full. In that case, the refund will need to be paid to Mr B in line with the settlement guidance noted below. As I think Sainsbury's Bank lent irresponsibly, I'm also going to tell it to remove any adverse information recorded on Mr B's credit file from August 2016 onwards.

My final decision

My decision is that I uphold Mr B's complaint and direct Sainsbury's Bank Plc to settle as follows:

- 1- refund all the interest and charges Mr B has paid on balances above £2,500
- 2- if the borrowing is still in place, Sainsbury's Bank should reduce the outstanding

capital balance by the amount calculated in step 1

- 3- if, after Step 2, there remains an outstanding balance, Sainsbury's Bank should ensure that it isn't subject to any historic or future interest and/or charges. But if Step 2 leads to a positive balance, the amount in question should be given back to Mr B and 8% simple interest* should be added to the surplus
- 4- Sainsbury's Bank should remove any adverse credit information its reported on Mr B's credit file from August 2016 onwards

*HM Revenue & Customs may require the business to take off tax from this interest. If it does, the business must give the consumer a certificate showing how much tax it's taken off if they ask for one

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 20 April 2023.

Marco Manente
Ombudsman