

The complaint

Mr M has complained that Sainsbury's Bank Plc ("Sainsbury's") irresponsibly lent to him.

What happened

Mr M opened a credit card account with Sainsbury's in November 2020. His credit limit was £8,500.

Mr M says that Sainsbury's acted irresponsibly by providing him with the credit card with such a high limit. Mr M says he got into financial difficulty as a result. He asks that Sainsbury's pay him back the full balance of his credit card plus any interest and charges along with statutory interest.

Sainsbury's says it didn't lend irresponsibly to Mr M and that it did all the necessary checks before it lent to Mr M.

Our adjudicator thought that Mr M's complaint should be upheld. They thought that given the amount it was proposing to lend to Mr M, Sainsbury's should have done more checks. And if it had done more checks, it would have seen information which would have indicated that Mr M wouldn't be able to pay back the borrowing and cover his existing debts in a sustainable way.

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 Mr M's complaint. Having done so, I agree with our adjudicator's view.

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 Mr M could afford to repay what he 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 Mr M's income and expenditure.

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 Mr M. These factors include

things like understanding the total amount Mr M borrowed, the length of time Mr M had been indebted and how much disposable income he had.

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

Mr M declared an annual income of £27,000 which is about £1,850 net a month. He also disclosed housing costs of £338 a month and that he was single with no dependents. Sainsbury's says its own checks showed that Mr M's income was likely accurate within a broad band of possible income.

Sainsbury's says it also completed credit checks which didn't show any arrears, defaults or County Court Judgments (CCJs). It hasn't provided easily identifiable evidence of the checks, but I am prepared to accept that Sainsbury's saw that Mr M's credit file showed he had a total of £17,750 in unsecured borrowing elsewhere, from which it estimated the cost of servicing that debt would be less than £400 a month. This seems low to me and it's not clear how Sainsbury's reached this conclusion. I think if Mr M had been paying his unsecured lending (that is, loans and credit cards) off at a rate of less than 3% a month it wouldn't have been repaid within a reasonable time. I think it would have been more reasonable to assume Mr M needed to repay his other unsecured borrowing at a rate of at least 3% a month which would make his monthly repayments on that around £530 a month. Sainsbury's also estimated Mr M's essential expenditure from Office of National Statistics data at around £495 a month. And it worked out that if Mr M spent up to his credit limit at its highest interest rate his minimum repayments would be £303 a month.

Taking all that into account, Sainsbury's considered that Mr M had a disposable income of just under £300 a month which it submits made the lending affordable. I think it would have been less than that, as I've explained that I think he would have needed to pay about £130 more a month to service his existing debt. However, this doesn't really make a difference as I still think given the level of borrowing Mr M already had compared to his income and the amount Sainsbury's were planning to offer him was enough for Sainsbury's to need to make further checks on Mr M's circumstances.

I can't say for sure what further checks Sainsbury's might have done. There is no prescriptive list of checks. But I think at the very least Sainsbury's ought to have checked Mr M's income.

Our adjudicator asked for evidence of Mr M's income at the time of his application. Mr M provided his payslips which were also shared with Sainsbury's. This showed that his income was lower than that he declared at application. His net weekly salary was about £400 meaning his monthly net income was about £1,600 to £1,700. Using this income in conjunction with Sainsbury's estimations of expenditure would have meant Mr M had disposable income of only £100 to £150 a month or, if taking my assessment of the amount Mr M had to pay to service his existing debts into account, a nil figure. I think this shows that had Sainsbury's completed necessary and proportionate checks it would have understood that the new lending wasn't affordable or sustainable for Mr M.

Following our adjudicator's view Sainsbury's made further representations. It said its old income verification system in place at the time of application wouldn't have picked up the inaccurate income information. This doesn't make a difference as I've explained already I think there were a combination of factors that ought to have made Sainsbury's do further checks and I have used the higher income figure to decide this.

Sainsbury's submitted that the credit card was designed for people with existing debt. There was a 0% balance transfer offer available, which if Mr M had used (which he did) would have allowed him to pay off his existing debts more quickly. If he had paid £472 a month for the 18

months of the offer he would have cleared a substantial amount of his existing debt. But Sainsbury's couldn't know that Mr M was going to do that. It had to work on the basis that Mr M was not going to use the credit card to pay his existing debt but for new spending. And by using the balance transfer facility, obviously he would have been freeing up existing credit limits elsewhere.

So, on balance, on the information available to me, I don't think Sainsbury's completed necessary and proportionate checks. If it had done so, I think it would have understood that the borrowing was unaffordable for Mr M. I think Mr M lost out as a result of what Sainsbury's did wrong.

Putting things right

As I don't think Sainsbury's ought to have opened the account, I don't think it's fair for it to be able to charge any interest or charges under the credit agreement. But I think Mr M should pay back the amount he has borrowed. Therefore, Sainsbury's should:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied.
- If the rework results in a credit balance, this should be refunded to Mr M 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 regarding this account from Mr M's credit file.
- Or, if after the rework there is still an outstanding balance, Sainsbury's should arrange an affordable repayment plan with Mr M for the remaining amount. Once Mr M has cleared the balance, any adverse information in relation to the account should be removed from his credit file.

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

My final decision

I uphold Mr M's complaint about unaffordable lending and direct Sainsbury's Bank plc to pay compensation as described above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 8 August 2023.

Sally Allbeury
Ombudsman