

The complaint

Miss L complains that Sainsbury's Bank Plc increased the limit on a credit card account, which she could not afford.

What happened

In January 2021 Sainsbury's approved a credit card account with an initial limit of £2,500 for Miss L. It increased that limit in November 2021 to £3,300. Miss L has had difficulties making repayments since summer 2022 and it would appear that the account was defaulted at the start of 2023. However, it doesn't seem that Sainsbury's has sold the debt on to a third party.

After Sainsbury's rejected her complaint, Miss L brought the case to our service. One of our investigators looked at the evidence and thought that, whilst its initial decision to open the account was fair, Sainsbury's should not have increased the credit limit in November 2021. So she upheld the complaint in part. Miss L accepted that view, but Sainsbury's didn't, and asked that the case be passed to an Ombudsman for review.

As Miss L has accepted the investigator's view, this decision will only consider whether the credit limit increase (CLI) was fair and reasonable.

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.

Having done so, I uphold this complaint for broadly the same reasons as the investigator.

Sainsbury's is aware of its obligations under the rules and regulations in place at the time of this credit limit increase, including the Consumer Credit Sourcebook ("CONC"), so I won't repeat them here. But, briefly, it was required to carry out sufficient checks to ensure that Miss L would be able to repay the borrowing it was making available to her in a sustainable way. As set out in CONC 5.3.1G(2) that means that she could manage the repayments,

"...without...incurring financial difficulties or experiencing significant adverse consequences"

Essentially, Miss L needed to be able to meet all her financial commitments and not have to borrow elsewhere to repay Sainsbury's for the credit limit to be considered affordable and sustainable.

Did Sainsbury's carry out proportionate checks?

It would seem that Sainsbury's carried out a very high-level credit check before giving the CLI in November 2021. It hasn't provided any substantial detail about that, but says the credit file information revealed no concerns. In addition, it had the benefit of seeing how Miss L had managed her account since January of that year. So, bearing in mind the size

of the CLI, it says that these checks were proportionate and in line with the regulations in force.

The investigator thought that Sainsbury's ought to have carried out more in-depth checks, noting the large amounts of cash Miss L had borrowed through money transfers on the credit card. She thought this was a flag of potential concern. I agree, and also note that Sainsbury's ought to have known that it had declined an application for a loan from Miss L in the summer of 2021. I will discuss each of these issues in turn.

In September 2021 and then again in November 2021, Miss L used a money transfer facility to effectively borrow cash on her credit card account. On both occasions she borrowed £2,000, and on both occasions paid fees of £80 and £60 respectively, to complete the transactions. She paid interest on the September 2021 money transfer, but received a promotional 0% interest rate on the November 2021 money transfer.

Highlighting the promotional 0% interest rate, and that Miss L repaid the September transfer in early November, Sainsbury's argues that these actions are not, therefore, a sign of potential difficulties. I disagree. Firstly, given the fees attached, neither of these transfers can be characterised as cost free borrowing, and the first was interest bearing. So I don't think it is logical to conclude that Miss L would have carried out either transaction unless she really did need the money. Secondly, the fact that Miss L needed to return so quickly to borrow the second amount of £2,000, having repaid the first transfer only seven days earlier, does not suggest financial health or stability.

Turning to the declined loan application, firstly, I accept that was a joint application. And Sainsbury's says now that it doesn't have the details of why it was declined. So there is the possibility that the declinature was mostly, or even solely, as a result of concerns about Miss L's co-applicant. But I can see that Sainsbury's wrote to Miss L in August 2021 saying that she/they effectively already had too much unsecured borrowing and so Sainsbury's wasn't prepared to offer any more. Without evidence showing those affordability concerns were **only** in relation to Miss L's co-applicant, which I do not have, I find it is more likely than not that the August 2021 declinature was also a reflection of Miss L's circumstances at the time. So it seems therefore likely that Sainsbury's did have some level of concern about Miss L's level of indebtedness.

I don't think that these factors were necessarily enough to lead Sainsbury's to automatically rule out a CLI for Miss L in November 2021. But I am satisfied that it was aware of clear and very recent indicators of potential affordability risks for Miss L, and so needed to look into her actual situation in rather more depth to proportionately assess whether she could afford the CLI it was offering.

What would Sainsbury's have found had it done proportionate checks?

When considering this second question, our service has had the benefit of several months of Miss L's bank statements to review. I accept that there was and is no requirement on a lender to obtain any particular type of information: they are permitted to source and rely on a range of evidence when assessing affordability, and so Sainsbury's could have opted to gather more information about Miss L's financial position in a range of ways. However, it didn't, and, in the absence of anything else provided, I'm happy to rely on the bank statements to demonstrate what Sainsbury's would most likely have discovered if it had completed proportionate checks.

As already explained by the investigator, the bank statements show that Miss L's outgoings exceeded her income. Substantially. I think it is clear that she was struggling with a significant gambling addiction, and it is equally clear that she was entirely dependent

on high-cost borrowing (in very large amounts) simply in order to exist.

I cannot see how proportionate checks could have led Sainsbury's to conclude that this CLI was sustainable and affordable for Miss L. It therefore follows that I don't think Sainsbury's should have increased the limit on Miss L's account from November 2021, and so I uphold this complaint.

Putting things right

Whilst I'm not aware that it has, if the lending relationship has deteriorated and Sainsbury's has sold Miss L's debt to a third party, it should buy it back, and then take the following steps. If it is not able to buy the debt back, then it should liaise with the new debt owner to achieve the results outlined below. However, I believe the account remains with Sainsbury's, and it should be able to take these steps itself.

In order to put things right for Miss L, I direct Sainsbury's to do the following:

- a) Rework the account to remove all interest and charges incurred on the account since 1 November 2021 on balances exceeding £2,500.
- b) Calculate what Miss L would have owed it if the credit limit had stayed at £2,500.
- c) Apply any and all repayments made by Miss L since 1 November 2021 to that adjusted balance identified in b).
- d) If that calculation means the adjusted balance would have been cleared, Sainsbury's must refund any remaining sums to Miss L with 8% simple interest*, calculated from the date of overpayment to the date of settlement.
- e) If after that calculation a balance remains, Sainsbury's must continue to work with Miss L to maintain an affordable repayment plan for her.
- f) Once the resulting balance has been repaid in full, Sainsbury's must remove all adverse information it reported on Miss L's credit file after 1 November 2021.

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

My final decision

For the reasons I've explained, I uphold this complaint and direct Sainsbury's Bank Plc to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 5 December 2023.

Siobhan McBride
Ombudsman