DRN-4674879

The complaint

Mr K complains that Sainsbury's Bank Plc agreed two loans which were unaffordable for him.

What happened

On 29 June 2023 Sainsbury's agreed to lend Mr K a £2,500 loan to be repaid over 60 months. The monthly loan repayment was £72.01 and the APR was 26.9%. The total cost of the credit, if repaid over the full term, was £1,820.60.

On 11 July 2023 Mr K applied for an additional £2,500 loan. Sainsbury's agreed the further funds, refinancing the earlier loan into this loan. Therefore, at this time Mr K was agreed a £5,061.53 loan (which included an early repayment charge and a small amount of interest from the earlier loan.) This loan was also due to be repaid over 60 months at a monthly repayment of £117.69 and with an APR of 14.9%. The total interest charged would have been £2,000.05.

Mr K has said the loans were irresponsibly lent by Sainsbury's. He has made a number of arguments to support this which I will summarise below.

- At the time of lending Mr K has said he had a severe gambling problem. He argues that the checks Sainsbury's completed were insufficient to detect his gambling problem as a credit search would not detect this. If Sainsbury's had checked his bank statements, Mr K argues, it would have seen that he was gambling several thousand pounds and so it shouldn't have lent to him.

- Through being given loans, Mr K feels he has suffered financially, emotionally and psychologically. Particularly as Mr K has said he used the loan proceeds to fund further gambling.

- Mr K had recently become unemployed (on 20 June 2023) shortly before the loans were agreed and has provided details of his income tax payments to HMRC to evidence this. At the time of lending, Mr K therefore argues he no longer had an income. Mr K acknowledges that he misrepresented his circumstances at the time of each application. However, he has said this was as a direct result of his gambling problem and his desperation to rectify his financial situation.

- Mr K argues his credit file showed a number of failed loan applications including contact with gambling companies, which should have prompted Sainsbury's to take further steps and review his bank statements before agreeing to lend.

- The interest rates applied to the loans were significantly higher than average market levels. So Mr K argues they weren't reasonable or justifiable. He also argues that this is an indication that Sainsbury's considered him to be a high credit risk.

- Both loan applications took place over the phone. Mr K assumes this was because of his low credit score. He feels this should have prompted Sainsbury's to complete further checks.

- Turning to the second loan, Mr K feels that applying for a loan so quickly after the first loan and the "rapid succession" of loan requests he was making at this time (detailed on the credit report he's provided), should have alerted Sainsbury's to need to complete further investigation. Furthermore, his discrepancy in income declarations between the two applications should have prompted further checks.

In response to his affordability complaint, Sainsbury's did not uphold his complaint. Prior to agreeing each loan Sainsbury's completed a credit search, asked for information about his income (which it then verified using an income verification tool) and estimated his expenditure using Office of National Statistics ("ONS") data. In relation to the second loan Sainsbury's also called Mr K to query the information being provided (due to the short period of time between the loans and discrepancies between information provided at each application.) Having been satisfied with the information Mr K provided at this time, it agreed to lend. Sainsbury's has argued that the checks completed at the time of each loan were proportionate and the information they revealed, demonstrated he could afford to repay both loans.

Our investigator considered the complaint but didn't uphold it. They also felt that the checks Sainsbury's completed were proportionate. And based on the information these checks revealed, it was reasonable for Sainsbury's to agree both loans. Mr K didn't agree with this assessment, so the complaint has been passed to me to consider.

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.

I want to start by acknowledging the deeply personal information Mr K has provided and explain that I don't doubt what he's told us about his financial and wider circumstances and that they have been very challenging. However, having carefully considered all the information I've been provided with (including the very detailed response to the investigator's assessment from Mr K) I'm not persuaded I can uphold this complaint.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. I have used this approach to help be decide Mr K's complaint.

Sainsbury's needed to make sure it lent responsibly to Mr K. It therefore needed to complete proportionate checks to determine if Mr K could afford to sustainably repay the lending. There is no set list of checks a lender should do, but there is guidance on the types of checks a lender could complete. These checks did however need to be proportionate when considering things like amount and term of the lending, what the lender already knew about the consumer etc.

Turning to the first loan, I can see Mr K declared an income of £26,000 per year, that he was employed full time and living with parents. He also declared the purpose of the loan was "*home improvements/ repairs*". Sainsbury's completed a credit search which showed no evidence of missed payments, defaults or CCJs. Essentially, that there was nothing in the results which suggested Mr K was currently having difficulty managing his finances. In terms of existing financial commitments, the search revealed Mr K had an existing loan with a repayment of £239 per month and a mortgage repayment of £241 per month. Sainsbury's estimated Mr K's other regular expenditure using ONS data and concluded he had sufficient disposable income to sustainably repay the £72.01 per month for the loan in question.

Having considered the checks Sainsbury's completed, I think they were proportionate when taking into consideration the income Mr K declared and the relatively low monthly loan repayment amount. And I think the information the checks revealed demonstrated Mr K could sustainably afford to repay this loan. As explained above, there were no indications that Mr K was struggling financially based on the results of the credit search completed, and he had minimal existing financial commitments.

Turing to the second loan, I can see Mr K declared a lower income of £22,232 per year, that he was still employed full time and was living with parents. His credit search again revealed an existing loan with a repayment of £239 per month and a mortgage repayment of £241 per month. His credit file again showed no late payments, defaults or CCJs and it estimated his other expenditure using ONS data. However, at this stage Sainsbury's referred the application to be manually unwritten and Mr K was contacted by Sainsbury's.

Sainsbury's spoke to Mr K to confirm why, if he lived with parents, he wanted a home improvement loan. Mr K explained he wanted it for furniture and redecorating. They queried why he was paying a mortgage if he was living at home. Mr K explained that the mortgage was a buy to let mortgage. Sainsbury's also queried the income discrepancy between applications. Mr K has since explained to our service that he used his final payslip to calculate income during the application rather than what his annual pay was prior to his employment ending. As a result of this discussion, Sainsbury's recorded that his annual income was £26,000 and that Mr K had a total annual buy to let income of £5,940. Based on the information Sainsbury's gathered, it determined Mr K could afford to sustainably afford to repay the monthly repayment of £117.69.

I have considered the checks Sainsbury's completed before agreeing the second loan. As Mr K was returning for additional borrowing shortly after taking the first loan, I think it was proportionate for Sainsbury's to take additional steps (when compared to the first loan) to determine if Mr K could afford to repay his loan. I also agree that Sainsbury's needed to query the discrepancies between income declarations. As I've explained above, Sainsbury's did complete an additional call with Mr K before agreeing to lend.

Based on the notes available from the call and what Mr K has since told our service, I think it's clear he gave a plausible account of his circumstances. As a result of the call, Sainsbury's recorded that Mr K earnt an annual income of £26,000 (which was the same amount he declared in his first application) and an additional buy to let income (which was supported by his credit file which showed he was paying a mortgage). And he explained why he needed a home improvements loan when living with his parents.

I appreciate the information Mr K provided during this call with Sainsbury's wasn't accurate. Mr K was actually using the loan to fund gambling and had recently become unemployed. However, he told Sainsbury's he was still employed. I don't think it would've been proportionate for Sainsbury's to have taken further steps to verify his income, given I think its most likely Mr K gave a plausible account of the discrepancy between applications. However, even if it had taken further steps, I think it's unlikely Sainsbury's would have uncovered he was unemployed as this had only recently happened and Mr K was claiming to still be employed.

So taking everything into consideration, I think Sainsbury's completed proportionate checks before agreeing the second loan and I think that the information they revealed suggested Mr K could afford to sustainably repay the loan.

For the avoidance of doubt, I do accept that Mr K's actual position wasn't uncovered by the checks Sainsbury's completed and the information it revealed. However, this isn't the test I need to consider. The test set out by the regulator (the Financial Conduct Authority) and which I need to consider is, did Sainsbury's complete proportionate checks? And if so, based on the information those checks revealed, could Mr K have sustainably afforded to repay the loan? I appreciate Mr K has said that a review of his bank statements would have alerted Sainsbury's to his wider financial circumstances, but I don't think it was proportionate for Sainsbury's to take this step during either application and so I don't think it wasn't required to. I think it made reasonable lending decisions, based on a proportionate level of information which Sainsbury's had gathered.

I've noted that Mr K has highlighted that the credit file he provided showed a number of declined applications for additional borrowing between the loan applications and it showed contact with gambling companies. However, from reviewing his credit file I can see that these were enquires rather than declined applications/full credit searches. As explained on the credit file Mr K's has provided these "*enquires do not affect your credit score – they are recorded simply as an audit footprint so that you can see who (or what type of lender) has been searching your credit file*." Therefore I don't think Sainsbury's would have had access to this information nor would it have shown in the results of Sainsbury's credit search. And as I've explained above, I think that the information this credit search revealed, suggested Mr K could afford to repay each loan.

Mr K has argued that he was charged a high interest rate on each loan. He feels these rates were unfair and suggested Sainsbury's thought he was a credit risk (and therefore it should have completed further checks). I don't agree that the interest rate charged in and of itself is sufficient to suggest Sainsbury's should have completed further checks. The interest rate charged is a commercial decision for Sainsbury's to make and a number of factors could have determined the rate given. Mr K's credit agreement also clearly set out the amount of interest charged on the loans. It was then for Mr K to decide if he wanted to take out the loans on this basis.

In addition, Mr K has said that both sales took place over the telephone and he assumes this was because of his low credit score. Even if both applications took place over the telephone as Mr K has said, I've seen nothing to suggest this was because Sainsbury's thought Mr K more of a credit risk. As I've explained above, at the time of the second application Sainsbury's took the step to additionally contact Mr K to verify and query some of the information provided. However, I have already explained above why I think it was proportionate to take this step and why I think that based on the information discussed, it was reasonable for Sainsbury's to agree the second loan.

To summarise, I think Sainsbury's completed proportionate checks before agreeing both loans. And I think that it was reasonable of Sainsbury's to agree each loan, based on the information the checks revealed.

My final decision

For the reasons explained, I don't uphold Mr K's complaint against Sainsbury's Bank Plc.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 10 May 2024.

Claire Lisle
Ombudsman