

The complaint

Miss S is complaining about Sainsbury's Bank Plc because she says it lent irresponsibly by giving her a loan she couldn't afford.

What happened

In June 2022, following her application, Sainsbury's Bank gave Mrs S a loan of £6,500 over a term of 48 months. Monthly repayments were £168.93, based on an annual interest rate of 11.9%.

Mrs S kept up with loan repayments initially, but she said her circumstances changed later in the year and payments stopped early in 2023. After she contacted Sainsbury's Bank to explain her situation, it stopped applying interest to the account. I understand Mrs S has since begun making repayments again.

Our investigator didn't conclude the complaint should be upheld, saying Sainsbury's Bank had carried out appropriate affordability checks and that the decision to lend was reasonable based on the information it obtained.

Miss S didn't accept the investigator's assessment and made the following key points:

- She had a history of borrowing to cover debts and avoid missed payments.
- Using statistical data to estimate her expenditure didn't give a full picture of her situation.
- The fact her current accounts were overdrawn should have been a red flag.
- A loan to consolidate existing debt can still be unaffordable even if the monthly repayments are lower.
- She didn't have enough time between applying for the loan and signing the agreement to make sure it was the correct decision. She also misunderstood the terms, not appreciating the interest rate was an annual amount rather than the total applied over the term of the loan.
- Sainsbury's Bank's response to the difficulties she faced was disappointing.

The complaint has now been referred to me for review.

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've reached the same overall conclusions as the investigator, and for broadly the same reasons. If I haven't commented on any specific point, it's because I don't

believe it's affected what I think is the right outcome. In considering this complaint I've had regard to the relevant law and regulations; any regulator's rules, guidance and standards, codes of practice, and what I consider was good industry practice at the time.

Before lending to Miss S, Sainsbury's Bank was required to carry out appropriate checks to ensure the repayments were affordable and sustainable. To decide whether this requirement was met, the key questions I need to consider are:

- Did Sainsbury's Bank complete reasonable and proportionate checks to establish Miss S would be able to repay the loan in a sustainable way?
- If so, was the decision to lend fair and reasonable?
- If not, what would reasonable and proportionate checks have discovered, and would the decision to lend have been fair and reasonable in light of that information?

Sainsbury's Bank has described the information it gathered to assess whether Miss S's loan was affordable before it was approved. This included:

- information contained in her application, including residential status, employment status and her income;
- information obtained from a credit reference agency (CRA), giving details of her existing credit arrangements and any past issues with credit, including missed payments and defaults; and
- an expenditure assessment using a combination of modelled data for key expenses, along with actual data from the CRA about the cost of her existing credit arrangements.

In making her application, Miss S declared her annual income was £24,000 and this appears broadly consistent with the information shown in the bank statements she's provided. In respect of her existing commitments, Sainsbury's Bank's credit check showed she had existing debts of £4,550 and no recent history of missed payments or defaults.

After considering this information carefully, I don't think there was any indication Miss S was struggling financially at this point. She wasn't heavily indebted compared to her income and seemed to be managing her existing commitments well.

Sainsbury's Bank also considered Miss S's key expenditure based on a combination of her existing credit commitments as recorded by the CRA and modelled statistical data to estimate other living expenses. In this way, it determined she had sufficient disposable income to afford the additional loan.

The use of modelled statistical data to estimate expenditure is an approach that's recognised by the regulator for assessing credit applications. It was clearly less thorough than an assessment of Miss S's actual expenses by reference to her bank statements for example. But in view of the information Sainsbury's Bank already had about her income and existing commitments, I think it was a proportionate approach in this case.

I've also considered Sainsbury's Bank's lending decision based on the information obtained from what I believe to have been a proportionate affordability assessment. In my view, it was entitled to believe the new loan repayments would be affordable for Miss S and that the decision to lend was a reasonable one. In saying this, I'm also conscious the stated reason for the loan was to repay existing debt, which if it was used for this purpose, would have had the effect of reducing her other outgoings. I can see the loan became unaffordable after a

short time, but Miss S's own comments indicate this was mainly down to changes in her circumstances that Sainsbury's Bank couldn't have foreseen.

In response to the some of the additional points Miss S has made:

- I'm satisfied the loan agreement was clear about the term of the loan and that the interest rate was an annual rate. Further, I've seen no evidence Miss S was put under undue pressure to sign the agreement before she'd had the opportunity to review and consider the proposed terms.
- Once Miss S made Sainsbury's Bank aware of the reasons she couldn't maintain repayments, it stopped applying interest to the loan and allowed her to delay repayments for a prolonged period. While I appreciate the circumstances described were difficult for Miss S, I'm satisfied Sainsbury's Bank fulfilled its obligation to treat her situation positively and sympathetically.

It's for these reasons that I'm not upholding Miss S's complaint. I realise this outcome will be disappointing for her, but I'm satisfied it's fair and reasonable in the circumstances and I hope the additional explanation is helpful.

My final decision

For the reasons I've explained, I'm not upholding this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 8 July 2024.

James Biles
Ombudsman