

The complaint

Mr H complains that Sainsbury's Bank Plc lent irresponsibly when it approved two loan applications he made.

What happened

In January 2019 Mr H applied for a loan of £7,000 with Sainsbury's Bank. Mr H said he was self employed and that his income was £31,200 which Sainsbury's Bank calculated to be £2,041 net each month. Mr H said he was living with family with no rent and had other monthly expenses of £520 a month. Sainsbury's Bank carried out a credit search and found Mr H had debts that totalled £19,650 with monthly repayments of £272.95. No adverse information was found on Mr H's credit file. Sainsbury's Bank says it calculated that Mr H had around £1,248.05 available as a disposable income each month and approved the £7,000 loan with monthly repayments of £232.81 over 39 months.

In the months that followed, some payments were returned unpaid and had to be made up. In September 2021 Mr H applied to refinance the loan with Sainsbury's Bank. Mr H wanted to use £2,612.44 to repay the existing loan and take a further £2,000. In his application, Mr H said he was self employed with an income of £33,600 which Sainsbury's Bank calculated at £2,199 net each month. Mr H said he had regular living expenses of £448 a month. Sainsbury's Bank carried out a credit search and found Mr H had unsecured debts totalling around £8,850 that required monthly repayments of around £219. Sainsbury's Bank says no adverse information was found on Mr H's credit file. Sainsbury's Bank says it calculated Mr H had a disposable income of £1,531 a month. Sainsbury's Bank applied its lending criteria and approved a loan of £4,613 with monthly repayments of £283.64 over 19 months.

Mr H maintained his monthly repayments and the loan was settled in May 2023.

Earlier this year, representatives acting on Mr H's behalf complained that Sainsbury's Bank lent irresponsibly and it issued a final response on 1 May 2024. Sainsbury's Bank didn't uphold Mr H's complaint and said the relevant checks had been completed before both loans were approved.

An investigator at this service upheld Mr H's complaint in part. They thought Sainsbury's Bank had carried out reasonable and proportionate checks before deciding to approve the first loan application Mr H made. But the investigator thought Sainsbury's Bank should've carried out a more thorough approach when looking at Mr H's second loan application. The investigator thought that better checks would've led to Sainsbury's Bank to decline Mr H's second loan application and asked it to refund all interest, fees and charges applied. Sainsbury's Bank reviewed Mr H's bank statements for the three months before his second loan application was made. But Sainsbury's Bank didn't agree to settle in line with the investigator's view and asked to appeal. As a result, Mr H's 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.

Before agreeing to lend, the rules say Sainsbury's Bank had to complete reasonable and proportionate checks to ensure Mr H could afford to repay the debt in a sustainable way. These affordability checks needed to be focused on the borrower's circumstances. The nature of what's considered reasonable and proportionate will vary depending on various factors like:

- The amount of credit;
- The total sum repayable and the size of regular repayments;
- The duration of the agreement;
- The costs of the credit; and
- The consumer's individual circumstances.

That means there's no set list of checks a lender must complete. But lenders are required to consider the above points when deciding what's reasonable and proportionate. Lenders may choose to verify a borrower's income or obtain a more detailed picture of their circumstances by reviewing bank statements for example. More information about how we consider irresponsible lending complaints can be found on our website.

Overall, I agree with the investigator that the decision to approve the first loan was reasonable based on what Sainsbury's Bank knew about Mr H. I'm satisfied Sainsbury's Bank asked Mr H for information about his income and outgoings and also carried out a credit search to get a picture of what he owed to other businesses. Whilst I can see Mr H had a reasonably high amount of unsecured debt when compared to his income, I note the loan was applied for on a debt consolidation basis. So there was always some expectation Mr H would use the funds to repay other debts and reduce his overall monthly outgoings. Sainsbury's Bank didn't find any adverse information on Mr H's credit file and I haven't seen anything that would've suggested Mr H was struggling or borrowing at an unsustainable rate at that point. Overall, I'm satisfied Sainsbury's Bank carried out reasonable and proportionate checks before deciding whether to proceed with the loan. I'm sorry to disappoint Mr H but I haven't been persuaded that Sainsbury's Bank lent irresponsibly.

I note that Mr H's repayments to the first loan weren't all made on time. There were a number of instances where payments were reversed and sent back to Mr H's bank account. As a result, Mr H had to make those payments up. I think that shows Mr H was struggling to make ends meet and maintain his existing repayments. In addition, Mr H has sent us a copy of his credit file that shows various missed payments to other businesses in the months leading up to his second loan application. Sainsbury's Bank's own lending assessment doesn't appear to show any missed payments being recorded, which is at odds with the credit file Mr H provided. Overall, I'm satisfied the way Mr H's repayments had been made following approval for the first loan should've highlighted to Sainsbury's Bank that it needed to be very sure he could afford to make increased repayments before refinancing.

I agree with the investigator's view that further checks would've been proportionate. One option was to review Mr H's bank statements to get a better picture of his finances at the time. I've looked at Mr H's bank statements for the three months before his second application was made.

I can see that Mr H's income was arguably higher than the figure Sainsbury's Bank used in its application. But I think it's fair to note the payments Mr H received were for self employed work so no deductions had been made at that point. I've looked at Mr H's outgoings and I think it's fair to say they were higher than the figures used by Sainsbury's Bank in its assessment as well. But I think there were clear signs within the bank statements that showed Mr H was already overcommitted in terms of his spending and that he was unlikely

to be able to support further borrowing. I note several returned direct debit payments due to a lack of funds, even after using Mr H's full overdraft facility. I also note that whilst Mr H received regular income, his account was generally overdrawn. In addition, there were various gambling transactions that I think would've most likely caused Sainsbury's Bank some concerns if they'd seen them. Taking the returned direct debits, overdraft use and level of gambling into account, I think it's more likely than not that a review of Mr H's bank statements would've led Sainsbury's Bank to have declined his second loan application.

As I'm satisfied a more thorough approach to Mr H's second loan application would've most likely led Sainsbury's Bank to decline it, I'm upholding this part of Mr H's complaint and directing it to refund all interest, fees and charges applied from inception to the date of settlement.

I've considered whether the business acted unfairly or unreasonably in any other way including whether the relationship might have been unfair under Section 140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed below results in fair compensation for Mr H in the circumstances of his complaint. I'm satisfied, based on what I've seen, that no additional award would be appropriate in this case.

My final decision

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

- Refund all interest, fees and charges Mr H paid on loan two
- Add interest at 8% per year simple on any interest, fees and charges from the date they were paid by Mr H to the date of settlement†
- Remove any adverse information recorded on Mr H's credit file regarding the agreement

*HM Revenue & Customs requires Sainsbury's to take off tax from this interest. Sainsbury's Bank must give Mr H a certificate showing how much tax it's taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 18 September 2024.

Marco Manente
Ombudsman