

The complaint

In summary, Miss W complains that Sainsbury's Bank Plc, provided her with a credit card and credit limit increase that she wasn't able to afford. The card was administered at the time of the application by another business on behalf of Sainsbury's. As Sainsbury's is responsible for the sale and limit increase, I will refer to Sainsbury's in my decision. In bringing her complaint, Miss W is represented by a business that I will refer to as S.

What happened

I've set out below a summary of what I consider to be the main relevant events in relation to the complaint.

In September 2016, Miss W applied for a credit card with Sainsbury's. The application was approved and a credit limit of £9,000 was provided. Sainsbury's explained to this service that at the time of the application, Miss W's declared income was £100,000 and total household income was £112,000. She had no mortgage payments or housing costs and no negative markers on her credit file, or defaults or CCJs. Her unsecured debt was low at £450. The application was approved. In April 2019, Sainsbury's increased the credit limit to £10,200.

S complained to Sainsbury's on behalf of Miss W in March 2024. In its response, Sainsbury's explained that it wasn't upholding the complaint. It had carried out a credit search at the time of the application to confirm Miss W was eligible for the credit facility. It also said that it had requested Miss W's bank statements. As it didn't receive a response to this request, it had based its decision on the information available. It went on to say that if bank statements could be provided for the period the applications were made and the accounts were open, it could factor this into its decision.

In its submissions, Sainsbury's has said the complaint made on Miss W's behalf by her representative, related to additional lending taken out after the initial decision to lend, so had no bearing on the initial decision to lend. It also said one large transaction was made to HMRC in November 2016 and then paid off in December 2016. The card wasn't used again until February 2019. It believed if Miss W had been relying heavily on borrowing, it was unlikely the open credit facility she had with Sainsbury's wouldn't have been utilised for over two years.

It went on to say that when the credit limit was increased in April 2019, there was no negative information recorded on Miss W's credit file. And even with the increased borrowing, it said she would have been able to support the payment requirements. It noted she exceeded her credit limit and there were a couple of missed payments between August and November 2019, but the account was brought up to date quickly in each instance. Sainsbury's has said this suggested there were no signs of any financial difficulties and could have been oversights on her part. It went on to explain that the creditworthiness and affordability assessment it carried out showed no evidence of missed payments. It said she continued to make payments to the account which was cleared in May 2020. As a result, it didn't think the decision to lend was irresponsible.

Miss W's concerns were looked into by one of our investigators. They asked Sainsbury's if it

consented to this service considering the complaint, as the initial credit had been provided more than six years from when Miss W made her complaint. Sainsbury's confirmed in writing that it agreed to the complaint being considered by this service. Having reviewed the information provided, the investigator explained why they thought the initial lending provided to Miss W was affordable. They went on to explain why they didn't think the limit increase should have been provided to Miss W.

Sainsbury's didn't agree with the investigator's opinion. So, the case has been passed to me to review. I issued a provisional decision on 23 January 2025, explaining why I was intending to uphold the complaint, for different reasons to those set out by the investigator. I asked for responses by 6 February 2025.

No response was received from S, but Sainsbury's replied, explaining why it didn't agree with my provisional decision. In summary, it said the credit limit increase was modest, it believed its checks were sufficient, fair and proportionate. It also said it had evidence that Miss W was able to maintain the payment requirements and didn't believe requesting statements or proof of income was a proportionate check. And it didn't agree that that the presence of gambling transactions was enough that had it requested bank statements, that this should have prompted it to request further information. It also said Miss W's income as a director could vary and might not have occurred in the statements provided. It didn't think there was any need to review any business accounts.

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 approach to considering unaffordable and irresponsible lending complaints on our website - including the key relevant rules, guidance, good industry practice and law. And I've considered this approach when deciding Miss W's complaint.

Having done so, I've decided to uphold Miss W's complaint. I'll explain why.

There are several questions that I've thought about when deciding if Sainsbury's treated Miss W fairly and reasonably when it provided her with the credit card.

- 1) Did Sainsbury's complete reasonable and proportionate checks to satisfy itself that Miss W would be able to repay her credit card in a sustainable way?
- 2) If Sainsbury's didn't complete reasonable and proportionate checks, what would reasonable and proportionate checks have shown at the time?
- 3) Ultimately, did Sainsbury's make a fair lending decision?
- 4) Did Sainsbury's act unfairly or unreasonably in any other way?

Did Sainsbury's complete reasonable and proportionate checks to satisfy itself that Miss W would be able to repay her credit card in a sustainable way?

The rules that Sainsbury's had to follow, required it to carry out checks that would enable it to reasonably assess, whether Miss W could afford to repay the credit card she wanted to take out. This is often referred to as an "affordability assessment".

The rules don't set out what specific checks Sainsbury's needed to carry out, but it did set out that those checks needed to be proportionate to the circumstances of the application. I think what this meant in practice, was that the scope and extent of Sainsbury's checks needed to reflect the nature of the lending, bearing in mind things such as the amount of credit, the interest rate, and any indications of customer vulnerability. This isn't an

exhaustive list.

The checks Sainsbury's needed to carry out as part of its affordability assessment, had to be "borrower focussed". What I mean by this, is that the checks needed to consider whether the credit provided, and the monthly repayments, would cause Miss W any difficulties or have any adverse consequences for her.

And as a result of the above, I think reasonable and proportionate checks needed to be more thorough if Miss W had a low income. This would reflect that it could be more difficult for her to make the card repayments with a low income. It would also need to be more thorough the higher the amounts she had to repay, as it would be more difficult to make higher monthly repayments on a given income.

With these principles in mind, I've thought about whether Sainsbury's completed reasonable and proportionate checks to satisfy itself that Miss W would be able to repay her credit card in a sustainable way.

In summary then, the circumstances of the initial credit card application were as follows:

- Miss W was applying for a credit card which had an initial APR of 9.9%. Miss W was recorded by Sainsbury's as having a gross annual income of approximately £100,000 when the credit card was taken out.
- Miss W was offered an initial credit limit of £9,000.
- The enquiries made by Sainsbury's showed no mortgage payments or housing costs and no negative markers on her credit file, or defaults or CCJs. Her unsecured debt was low at £450.

I've thought carefully about the arguments put forward by Sainsbury's as to why it considers the checks it carried out were reasonable and proportionate, including those made in response to my provisional decision. Whilst I acknowledge that there wasn't any negative information on Miss W's credit file, I still consider the initial credit limit of £9,000 that Sainsbury's approved, to be a substantial amount of credit. As a result, I think Sainsbury's should have carried out reasonable and proportionate checks to verify the information Miss W had provided, particularly in respect of the substantial income she had declared on her application; and to ensure that she would be able to sustainably meet the repayments on the account on an ongoing basis.

I've set out above the checks that Sainsbury's has said it carried out in respect of her credit card application. But given the very high income she declared on her application and the significant level of credit that Sainsbury's was prepared to provide to her, I'm not persuaded that the checks it says it carried out, were reasonable or proportionate. I say this because I'm not satisfied that Sainsbury's took adequate steps to verify Miss W's income and expenditure, which I think it should have done, considering the circumstances of her application that I've summarised above.

If Sainsbury's didn't complete reasonable and proportionate checks, what would reasonable and proportionate checks have shown at the time?

Miss W has provided copies of her personal bank statements, and her business bank account statements, for the three-month period prior to this lending decision, which I think give an indication of the information about her financial circumstances and income that reasonable and proportionate checks might have shown.

I have reviewed those bank statements. The personal bank statements show her monthly

income to be £1,000, Miss W has also confirmed that she receives monthly child benefit of £104.

I have several concerns regarding this information. Firstly, the income shown on the statements is significantly different from that declared on Miss W's application. Secondly, the statements show several gambling transactions amounting to £420. I don't agree with what Sainsbury's has said about the presence of gambling transactions. I say this because I think the level of gambling the records showed which amounted to approximately 40% of Miss W's income for that particular month, was suggestive of a degree of vulnerability on her part. It was evidence in my view of gambling far in excess of any recreational activity, particularly taking into account the relatively low income she appeared to have from the information contained in her bank statements. And I believe that if Sainsbury's had seen this information, it should have led it to ask Miss W further questions about her financial circumstances and question the affordability for Miss W, of providing her with the credit that it did.

The bank statements show she also had a running balance of around £8,000. And the investigator considered this sufficient combined with her existing debt, for Miss W to be able to afford the repayments. I don't agree with that assessment, and I'll explain why.

Whilst I accept that in the months prior to the application Miss W had a substantial balance in her personal current account, the issues I have identified above I think are pertinent to the issue of affordability. And as I've already outlined, an examination of Miss W's personal account bank statements, don't provide a full picture of her financial position. I have examined Miss W's business bank account statements. The three months prior to her application for the card show that account which she appears to have used for personal expenditure as well, to be significantly overdrawn in that period. And at the time Miss W made her credit card application in September 2016, the account was overdrawn by over £23,000. In addition, there is evidence of significant betting activity amounting to just over £1,000.

So, I think if Sainsbury's had carried out reasonable and proportionate checks, it would have realised that Miss W's circumstances were such that she couldn't reasonably afford the additional credit it was providing to her. The bank statements in my opinion clearly show that Miss W wasn't managing her finances in a sustainable way. And the provision of further credit would I believe, only exacerbate what was a clearly difficult financial situation for her.

The credit limit increase

In April 2019, Sainsbury's increased Miss W's credit limit again by £1,200 to £10,200. I don't agree with Sainsbury's that this was a modest increase. The increased credit limit that Sainsbury's approved, was in my opinion, a significant credit limit increase. I think given the level of the increased limit and taking into account the statement balance prior to the credit limit increase was close to the existing credit limit, the checks carried out by Sainsbury's weren't reasonable or proportionate in relation to this credit limit increase as well.

Miss W has also provided copies of her personal and business bank statements for the three-month period prior to this lending decision, which I think give an indication of the information about her financial circumstances that reasonable and proportionate checks might have shown. These show that Miss W's business account was again, in overdraft in the three months leading up to the credit limit increase. And her personal account bank statements also show that although in January 2019 she had a significant credit balance; for most of that three-month period the account was overdrawn. At the time of the limit increase, her financial circumstances don't appear to have fundamentally changed since she was provided with the credit in 2016. So, I think if Sainsbury's had carried out reasonable and proportionate checks, it would have realised that Miss W's financial circumstances were

such that she couldn't reasonably afford the additional credit it was providing to her.

Did Sainsbury's make a fair lending decision?

For the reasons I've outlined above, I think that in the particular circumstances of Miss W's case, Sainsbury's shouldn't have provided her with the credit that it did.

Putting things right

In most cases where credit has been provided where it shouldn't have been, it would be fair and reasonable for the lender to refund any interest and charges paid by the borrower. And the borrower would usually be expected to pay any remaining amount of the money they had been lent. So, I would expect Miss W to pay back the money she was lent, but not the interest or any charges or fees. With this in mind, I think Sainsbury's should put things right for Miss W by doing the following:

- Rework the account removing all interest, fees, charges and insurances (not already refunded) that have been applied.
- Sainsbury's has said that Miss W has paid off the balance on the account. If the rework results in a credit balance on the account, this should be refunded to Miss W along with 8% simple interest a year* calculated from the date of each overpayment to the date of settlement. And Sainsbury's should remove any adverse information reported to Miss W's credit file about this account.

*HM Revenue & Customs requires Sainsbury's to take off tax from this interest. Sainsbury's must give Miss W a certificate showing how much tax it has taken off if she asks for one.

I have also considered whether Sainsbury's acted unfairly or unreasonably in any other way. And I've also considered whether the relationship might have been unfair under s.140 of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed above results in fair compensation for Miss W in the circumstances of her complaint. I'm also satisfied, based on what I've seen, that no additional award be appropriate in this case.

My final decision

My decision is to uphold Miss W's complaint in part. Sainsbury's Bank Plc, needs to calculate and pay Miss W compensation if she has suffered a loss, using the methodology set out above. Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 12 March 2025.

Simon Dibble
Ombudsman