

## **The complaint**

Miss J complains that Sainsbury's Bank Plc lent irresponsibly when it approved two loan applications she made.

## **What happened**

Miss J applied for a loan of £4,500 with Sainsbury's Bank in October 2020 (loan 1). In her application, Miss J said she was employed with an annual income of £32,400 that Sainsbury's Bank calculated left her with £2,131 a month net. Miss J also said she had housing costs of £540 a month.

Sainsbury's Bank completed a credit search and found no evidence of adverse information or recent missed payments. Unsecured debts totalling £5,650 were found with monthly repayments of £381. The monthly repayments were factored into Sainsbury's Bank's affordability assessment.

The affordability assessment took Miss J's income of £2,131 a month and made deductions for her housing costs of £540 and an estimate of £432 as an estimate of her general living expenses. Sainsbury's Bank also applied Miss J's monthly repayments of £381 to the assessment. Sainsbury's Bank says Miss J had a disposable income of £642 a month. Sainsbury's Bank approved the application for loan 1 and the funds were issued to Miss J. Monthly repayments were £214.12 over a 24 month term.

Miss J made her monthly payments and in March 2021 she applied to refinance loan 1 into loan 2 with a loan amount of £6,500. In this application, Miss J confirmed she was still earning £32,400 (again a net monthly figure of £2,131 was used) but was now living with her parents.

A new credit search found Miss J's unsecured debts totalled around £8,050. No new adverse credit or recent missed payments were noted.

An affordability assessment used Miss J's income of £2,131 a month and made a deduction of £506 for her housing costs, £432 as an estimate of her general living expenses and £130 for her existing debt repayments. Sainsbury's Bank reached the view Miss J had a disposable income of £954 a month. Sainsbury's Bank approved loan 2 and monthly repayments were set at £213.72 over a 36 month term.

Around June 2022 Miss J's loan fell into arrears and reduced payments were made. In 2023 Sainsbury's Bank was contacted by the Insolvency Service to advise Miss J had entered a Debt Respite Scheme. Sainsbury's Bank later closed the loan in default due to the arrears.

More recently, Miss J complained that Sainsbury's Bank lent irresponsibly and it issued a final response. Sainsbury's Bank said it had carried out the relevant lending checks for both loan applications and didn't agree it lent irresponsibly to Miss J.

An investigator at this service looked at Miss J's complaint. They thought Sainsbury's Bank completed proportionate checks before approving Miss J's applications and that its decisions to approve both loans were reasonable based on the information it obtained. The investigator wasn't persuaded Sainsbury's Bank lent irresponsibly and didn't uphold Miss J's complaint. Miss J asked to appeal and pointed out she'd applied for a loan 2 shortly after loan 1 was approved. Miss J also said the applications relied on statistical expenditure assumptions rather than her true circumstances. Miss J explained Sainsbury's Bank's loans had led to a Debt Management Plan (DMP). As Miss J asked to appeal her complaint 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 Miss J 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.

I've set out the information Miss J gave in her application for loan 1 above. Miss J confirmed her annual income and a net monthly figure of £2,131 was calculated. Miss J also gave her housing costs which were used by Sainsbury's Bank in its affordability assessment. Sainsbury's Bank completed a credit search that found Miss J had outstanding debts totalling £5,650. No adverse credit or recent missed payments were noted and I haven't seen anything that would've indicated to Sainsbury's Bank Miss J was struggling at the time.

The affordability assessment used Miss J's income and declared housing costs. It also used an estimate for Miss J's general living expenses. I understand Miss J has some concerns over the use of an estimate but the relevant lending rules allow businesses to take that approach. I haven't seen anything that shows it wasn't reasonable to use an estimate in this case.

The affordability assessment took Miss J's income, housing costs, existing debts and general living expenses into account. That left a reasonable disposable income of £642 a month, including a buffer Sainsbury's Bank applied. I'm satisfied that figure was sufficient to sustainably afford repayments of £214.12 over a 24 month term. Overall, Miss J had reasonable outstanding debts, her credit file didn't show signs she was struggling and the affordability assessment reached the view she had a disposable income that was more than sufficient to cover the loan repayments. In my view, Sainsbury's Bank completed proportionate checks and its decision to approve loan 1 was reasonable based on the

information it obtained. I'm sorry to disappoint Miss J but I haven't been persuaded Sainsbury's Bank lent irresponsibly when it approved loan 1.

Miss J's made the point she went back to Sainsbury's Bank after five months to extend her loan. Miss J has explained she thinks this should've shown Sainsbury's Bank she was struggling. But I think it's reasonable to note Miss J had built a track record with loan 1 and that all the payments had been made without issue.

Loan 2 was also subject to a separate application process that relooked at Miss J's circumstances. Miss J's income was confirmed. In the application for loan 2, Miss J said she was living with her parents and I can see a housing cost of £506 a month was used in the affordability assessment. Whilst the new credit search showed Miss J's unsecured debts had increased to around £8,000, the monthly repayments were noted and factored into the new affordability assessment. All Miss J's payments were up to date with no new adverse information recorded. I've considered whether the increase in Miss J's debt should've prompted further checks by Sainsbury's Bank, but I'm satisfied they were at a level that was consistent with her income and circumstances.

The affordability assessment took the same approach as loan 1 and reached the conclusion Miss J had a disposable income of £954 a month after her existing outgoings were met. Overall, I'm satisfied proportionate lending checks were completed by Sainsbury's Bank when considering loan 2. I think the information obtained indicated Miss J was able to sustainably afford repayments to loan 2, which were slightly less than the repayments for loan 1. In my view, the decision to approve loan 2 was reasonable based on the information Sainsbury's Bank obtained. I'm very sorry to disappoint Miss J but I haven't been persuaded Sainsbury's Bank lent irresponsibly when it approved her application for loan 2.

I understand loan 2 later fell into arrears and was closed in default. Miss J's explained she entered into a Debt Management Plan as a result of her circumstances. Sainsbury's Bank's provided copies of its collections notes and correspondence. I think they show Sainsbury's Bank was willing to work with Miss J and took her circumstances into account when support was needed. I haven't seen anything that indicates Sainsbury's Bank treated Miss J unfairly when she experienced difficulties maintaining loan payments.

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 which says a court may make an order under Section 140 if it determines a relationship between the creditor and the debtor is unfair. The consumer is the debtor and Section 140 defines the creditor as "the person to whom his rights and duties under the agreement have passed by assignment or operation of law."

Where a debt has been sold, (as it has in this case) it follows that the debt purchaser is now the creditor for the purpose of the credit agreement. So a claim about an unfair relationship can't be brought by the consumer against the original lender as they are no longer the creditor.

### **My final decision**

My decision is that I don't uphold Miss J's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss J to accept or reject my decision before 24 April 2026.

Marco Manente

**Ombudsman**