DRN-4640222

The complaint

Mr S has complained that Sainsbury's Bank Plc acted irresponsibly when it approved him for a £20,000 loan in 2020.

Background

Mr S successfully applied for a £20,000 unsecured personal loan with Sainsbury's in January 2020. He has said that at the time he was becoming increasingly dependent on credit and the loan wasn't sustainable. He believes that if Sainsbury's had completed thorough checks of his existing circumstances at the time it would have realised the lending was inappropriate and not provided him with the loan.

Mr S began missing payments to the loan in 2022 and it was eventually defaulted in 2023 by which time he'd entered a debt management plan. He's asked that Sainsbury's write off the remaining debt owed, refund him all the interest he paid to the loan, remove all traces of it from his credit file and pay him compensation for the distress and upset caused.

Sainsbury's has said that at the time of application it completed the necessary checks and having done so found that Mr S, was earning approximately £35,000 per year at the time of application and had just under £10,000 of existing debt. It says Mr S had sufficient disposable income every month to cover the loan repayments comfortably. So, it didn't think it needed to do additional checks and felt the lending decision was reasonable. So, it didn't uphold his complaint.

Unhappy with Sainsbury's response Mr S brought his complaint to our service. One of our investigators looked into it already. He found that given the high value of the loan, along with the length of its term, 5 years, the bank should have done more detailed checks than it normally did. He said if that had happened Sainsbury's would have realised Mr S was already showing signs of financial stress and that there was a high volume of gambling activity on his account in the months leading up to the borrowing. So, he thought there were clear indications that the lending was unlikely to be sustainable and upheld Mr S' complaint.

Sainsbury's disagreed with the investigator's findings. While it accepted there was evidence of gambling on Mr S' bank statements it didn't think it had sufficient reason to review these at the point of application. And without seeing the statements there was no way it would have known about the gambling or had any reason to think the lending was inappropriate. So, it asked for an ombudsman to review the complaint and it's now been passed to me for consideration.

My findings

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 agree with the outcome reached by our investigator and I'm upholding Mr S' complaint.

In its response to our investigator's view Sainsbury's said at the time of application there was nothing to indicate that Mr S may be struggling to manage his finances or that he was spending in a way that could cause him harm. However, I think there were some indicators that Sainsbury's should have picked up, and that more thorough checks would have demonstrated, that Mr S was unlikely to be able to sustain the repayments of such a large loan over such a long period.

Looking at the application information provided by Sainsbury's I can see the declared purpose for the loan was debt consolidation. Sainsbury's has said that at the time Mr S had less than £10,000 of existing unsecured debt. Which means he was borrowing more than twice the amount he needed for debt consolidation. Given the size of the loan, and that more than £10,000 of it was for an unknown purpose I think Sainsbury's could have queried this at the time with Mr S.

In addition, looking at Mr S' credit file I can see that he'd taken out two other loans with two different lenders in November 2019, just a few weeks before applying for this loan with Sainsbury's. And his credit file shows a history of taking out high-cost credit prior to his application with Sainsbury's. So, I think that given the high value combined with the long term of the loan, the fact that more than half the loan value was unaccounted for, and the recent previous new credit commitments, Sainsbury's should have done more than just the basic checks to ensure that the lending was appropriate for Mr S.

Had it done more thorough checks it's likely that it would have reviewed Mr S' bank statements. I say this not because there is a specific requirement on lenders to review bank statements, there isn't, but merely because when more thorough checks are called for bank statements are often requested and reviewed.

If Sainsbury's had reviewed Mr S' statements at the time it would have seen signs that he was gambling beyond his means, in the previous three months to apply for this loan, he'd gambled a total of £1,640. This included gambling in November 2019, the same month he'd taken out two other loans.

In addition to the gambling activity on his bank account Mr S was heavily dependent on his overdraft. Although he did manage to get his account into credit each month, this was only ever for a few days at a time, and it never took long for his account to go back into a negative balance.

So, although it may have looked like the loan was affordable on paper, I think there were clear indications that Mr S was struggling to manage his finances properly. And I think Sainsbury's should have taken a closer look at Mr S' existing expenditure before agreeing to give him such a large loan. Had it done that I don't think it would have approved his application because I think it would have realised the loan wasn't sustainable.

Mr S has asked that Sainsbury's write off the remaining debt he owes, refund the interest and charges he paid for the loan and remove it from his credit file. He's also asked for compensation for the upset caused by the lending decision.

I don't think it's reasonable to ask Sainsbury's to write off the existing debt or pay Mr S compensation. I know this will come as a disappointment to Mr S, but he is liable for the capital amount he borrowed and it's sufficient to ask Sainsbury's to refund the interest added to that amount. I say this as it's the standard approach taken by the service to these sorts of complaints and it's not our role to punish banks for errors made.

Putting things right

Therefore, to put things right, Sainsbury's Bank Plc should:

- Remove all interest, fees and charges applied to the loan from the outset. Any payments made by Mr S should then be deducted from the new starting balance. If the payments Mr S made total more than the amount he was originally lent, then any surplus should be treated as overpayments and refunded to him with 8% simple annual interest* calculated on the overpayments made from the date they were paid by Mr S, to the date the complaint is settled.

- If there's an outstanding balance on the loan, then Sainsbury's should agree an affordable repayment with Mr S, if appropriate, bearing in mind the need to treat him positively and sympathetically in those discussions, and take account of his current ability to repay the loan.

- If the outstanding balance can be repaid, any relevant adverse information (related to the lending) recorded on Mr S' credit file should be removed. However, if it's not possible for a reasonable repayment plan to be agreed, and the outstanding amount repaid, then it is fair for the default markers to remain on Mr S' credit file.

*If HM Revenue & Customs requires Sainsbury's Bank Plc to take off any tax from this interest, Sainsbury's Bank Plc should give Mr S a certificate showing how much tax they've deducted if he asks for one.

My final decision

For the reasons set out above I'm upholding Mr S' complaint against Sainsbury's Bank Plc.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S to accept or reject my decision before 25 March 2024.

Karen Hanlon
Ombudsman