DRN-4964978

The complaint

Ms H says Sainsbury's Bank Plc (SB) irresponsibly lent to her.

What happened

Ms H took out an £11,000 loan over 36 months from SB on 29 August 2015. The monthly repayments were £348.47, the total repayable was £12,545 and the APR was 9.1%.

Ms H says SB's checks did not go far enough. She was unable to afford the loan repayments without experiencing hardship or without borrowing from elsewhere. Had SB completed proper due diligence it would have seen this.

SB says it completed proportionate checks that showed the loan would be affordable for Ms H.

Our investigator did not uphold Ms H's complaint. He said SB's checks were proportionate and showed the loan would be sustainably affordable for Ms H.

Ms H disagreed with this assessment and asked for an ombudsman's review. She said she had double the amount of debt our investigator stated and SB would have known this from better checks. She sent in a copy of her full credit file to evidence this.

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 general approach to complaints about unaffordable/irresponsible lending - including all the relevant rules, guidance, and good industry practice - on our website.

Considering the relevant rules, guidance, and good industry practice, I think the questions I need to consider in deciding what's fair and reasonable in the circumstances of this complaint are:

- Did SB complete reasonable and proportionate checks to satisfy itself that Ms H would be able to repay the loan in a sustainable way?
- If not, would those checks have shown that Ms H would have been able to do so?
- If so, did SB make a fair lending decision?
- Did SB treat Ms H unfairly in some other way?

The rules and regulations in place required SB to carry out a reasonable and proportionate assessment of Ms H's ability to make the repayments under the agreement. This assessment is sometimes referred to as an affordability assessment or affordability check.

The checks had to be borrower-focused – so SB had to think about whether repaying the loan would be sustainable. In practice this meant that SB had to ensure that making the repayments on the loan wouldn't cause Ms H undue difficulty or significant adverse consequences. That means she should have been able to meet repayments out of normal income without having to borrow to meet the repayments, without failing to make any other payments she had a contractual or statutory obligation to make and without the repayments having a significant adverse impact on his financial situation. In other words, it wasn't enough for SB to simply think about the likelihood of it getting its money back - it had to consider the impact of the loan repayments on Ms H.

Checks also had to be proportionate to the specific circumstances of the loan application. In general, what constitutes a proportionate affordability check will be dependent upon a number of factors including – but not limited to – the particular circumstances of the consumer (e.g. their financial history, current situation and outlook, and any indications of vulnerability or financial difficulty) and the amount/type/cost of credit they are seeking. Even for the same customer, a proportionate check could look different for different applications. I think that such a check ought generally to have been more thorough:

- The lower a consumer's income (reflecting that it could be more difficult to make any loan repayments to a given loan amount from a lower level of income).
- The higher the amount due to be repaid (reflecting that it could be more difficult to meet a higher repayment from a particular level of income).
- The greater the number and frequency of loans, and the longer the period during which a customer has been given loans (reflecting the risk that repeated refinancing may signal that the borrowing had become, or was becoming, unsustainable).

I can see that SB asked for certain information before it approved the loan. It has told us it relied on Ms H's declared income and housing costs. It asked about her residential and marital status, and whether she had any dependants, It used her responses to help estimate her living costs. It carried out a credit check to understand her existing credit commitments and credit history. It asked about the purpose of the loan which was debt consolidation. From these checks combined SB concluded the loan was affordable for Ms H as she had monthly disposable income of £2,017.94.

I think these checks were proportionate in the circumstances of this loan and I think SB made a fair lending decision based on the information it gathered. I will explain why.

Ms H declared an annual income of £59,000, so £3,488 net a month. She said her housing costs were £900. SB calculated her living expenses would be around £300 and that she was spending £403 a month on her existing credit commitments that totalled £9,750. Its credit checks showed no adverse data such as accounts in arrears or defaults.

So in the context that this was her first loan with SB; that she had a relatively high income with ample disposable funds; and her existing accounts were all up-to-date, I think it was reasonable for SB to lend to Ms H based on the checks it completed.

In addition and quite critically, Ms H told SB the loan was for debt consolidation. It would allow her to repay all her existing debt and reduce her monthly outgoings by around £55. So I think it's reasonable that it would not seem to SB that there was any likelihood its loan would cause Ms H financial harm. Given the APR was 9.1% it would've seemed more likely to be financially helpful given the majority of her existing debt was revolving and so most likely credit card debt with a higher cost. And Ms H didn't have a history of applying for loans with SB for consolidation purposes and then returning for further funds after having failed to consolidate as she said she would. So I think SB was reasonably entitled to believe the funds would be used for the stated purpose.

Ms H has said that the value of her existing debt at the time was around double the £9,750 that SB's checks showed and she sent in evidence to support this. But I can see SB's credit check showed she had £6,850 of unsecured revolving debt and a total unsecured debt of £9,750. There can be a number of reasons a consumer will see different data on their full credit file than a lender will see from its extract, such as timing lags and not all lenders report to all the credit reference agencies. But I can only fairly expect the lender to respond to the results its credit search returned as I have found its checks to be proportionate.

I've also considered whether the relationship might have been unfair under Section140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think SB lent irresponsibly to Ms H or otherwise treated her unfairly in relation to this matter. I haven't seen anything to suggest that Section 140A would, given the facts of this complaint, lead to a different outcome here.

It follows I don't think SB was wrong to lend to Ms H.

My final decision

I am not upholding Ms H's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms H to accept or reject my decision before 12 September 2024.

Rebecca Connelley
Ombudsman