

The complaint

Mr V complains that Sainsbury's Bank Plc irresponsibly lent to him.

Mr V is represented by his partner in bringing this complaint. But for ease of reading, I'll refer to any submission and comments she has made as being made by Mr V himself.

What happened

Mr V was approved for a Sainsbury's credit card with a £12,000 credit limit in March 2021. Mr V says this was irresponsibly lent to him. Mr V made a complaint to Sainsbury's.

Sainsbury's did not uphold Mr V's complaint. They said a credit search was performed and Mr V met the relevant criteria, so the application was approved. Mr V brought his complaint to our service.

Our investigator upheld Mr V's complaint. He said although Mr V provided data to show he received a relatively high income, and that Sainsbury's felt this meant Mr V could comfortably repay his credit card repayments, he didn't think the repayments were affordable for him. He said Mr V provided his bank statements leading up to the approval of the credit which showed Mr V was utilising his overdraft regularly.

Sainsbury's asked for an ombudsman to review the complaint. They said the rate for the minimum payment on their account is calculated at 2.25% per month, which is even higher than other lenders who request repayments of 1%.

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 approve the credit available to Mr V, Sainsbury's needed to make proportionate checks to determine whether the credit was affordable and sustainable for him. There's no prescribed list of checks a lender should make. But the kind of things I expect lenders to consider include - but are not limited to: the type and amount of credit, the borrower's income and credit history, the amount and frequency of repayments, as well as the consumer's personal circumstances. I've listed below what checks Sainsbury's have done and whether I'm persuaded these checks were proportionate.

Sainsbury's said they completed a credit check with a Credit Reference Agency (CRA) and information that Mr V had provided before approving his application. The information showed that Mr V declared a gross annual salary of £47,450. There was no adverse data such as defaults or County Court Judgements showing on his credit file. The data also showed that Mr V had active outstanding unsecured balances of £16,250. So this would be over a third of his gross salary before Sainsbury's added to the credit Mr V could use.

I do note that Mr V also declared additional household income, however, only Mr V would be responsible for repaying the debt. Sainsbury's had calculated a net income of £3,696 a

month for Mr V. They took the information from Mr V regarding his rent payment of £770 a month, and Sainsbury's calculated Mr V's essential monthly spending to be £1,445 a month, with his credit commitments to be £942 a month.

Sainsbury's said that this would leave Mr V with £539 a month disposable income, and if he utilised the full credit of £12,000 on the credit card then his minimum repayments would be around £431 a month. So even after the minimum repayment was made, then Mr V would have £108 a month left.

It doesn't appear that non-essential expenditure was accounted for. But even if it was, I need to be mindful that with a slight increase to Mr V's bills, the £108 buffer may not be sufficient for Mr V to be able to meet his credit commitments and his essential bills. In addition to this, I also need to be mindful that if Mr V utilised the full credit limit, and he only repaid the minimum repayment, then the debt wouldn't be paid in a reasonable amount of time as it would take several years for Mr V to repay the debt.

Once the £12,000 credit card limit was added to his existing £16,250 of unsecured debt, then if Mr V utilised all of the credit limit, this would result in his total unsecured debt to be £28,250, which would be around 60% of his declared gross income.

So based on all of these factors, I'm persuaded that Sainsbury's should have carried out further checks to ensure the lending would be affordable and sustainable for Mr V. There's no set way of how Sainsbury's should have made further proportionate checks. One of the things they could have done was to contact Mr V to get an understanding of his expenditure given the tight disposable income if only the minimum repayment would be made. Or they could have asked for his bank statements as part of a proportionate check to ensure the lending was sustainable and affordable for him.

Mr V has provided his bank statements for the months leading up to the acceptance of his credit card. I can see that £12,000 credited Mr V's account on 31 October 2020 from a lender. But within five days he had already entered back into his arranged overdraft of £2,000. The statements show regular income crediting Mr V's account. The income takes Mr V out of his arranged overdraft, but he usually enters his arranged overdraft again a week or less after he has been paid. And Mr V is often four figures overdrawn.

The statements do appear to show that Mr V was hungry for credit as not only did he often utilise the majority of his arranged overdraft and take out a loan with another provider on 31 October 2020, he also took out another loan on 19 January 2021 for £5,000. So Mr V had taken out £17,000 worth of personal loans in less than three months.

I'm mindful that due to this loan being taken out on 19 January 2021, that although Mr V was approved for his Sainsbury's credit card in March 2021, he actually applied for it in February 2021. So given that credit files can take up to 4-6 weeks to update, it's possible that this loan (and the monthly repayments) weren't included in Sainsbury's initial checks. While this would be out of their control, as they could only consider the information that the CRA told them, if they would have made further checks based on the reasons I gave earlier in this decision, then this likely would have come to light.

Although the £5,000 loan was credited to Mr V's account on 19 January 2021, he again entered an arranged overdraft the following day. Mr V's statements also show his income fluctuated. His January 2021 salary which credited his account was substantially less than what Sainsbury's had calculated to be his net monthly income. As £3,109.48 credited his account on 25 January 2021.

So if Sainsbury's would have seen this as part of a proportionate check, then it would appear

that Mr V wouldn't have the affordability to even meet his minimum repayment, given that Sainsbury's estimated Mr V had £539 disposable income a month, yet the last salary credit was £586.52 less than his calculated net income.

I've also noted that Mr V's February 2021 salary was even lower, as it was £2,944.98, which further demonstrates that the net monthly income Sainsbury's calculated was too high. But to be fair to both sides, if Sainsbury's had made further checks, Mr V's salary for February may not have credited his account when the further checks may have been made.

But based on the information Sainsbury's would have seen if they made further checks, for example, the lower salary in January 2021, and the reliance on borrowings with two loans being opened in less than three months (including the possibility of the last loan not yet being shown on his credit file, and therefore the monthly repayments not being included on his outgoings), then I'm not persuaded that Sainsbury's would have approved Mr V's application and given him a £12,000 credit limit, as this wouldn't appear to be affordable or sustainable for him. So I can't say that Sainsbury's made a fair lending decision here.

I've also considered whether the relationship might have been unfair under s.140A of the Consumer Credit Act 1974. However, I'm satisfied the redress I have directed at the end of this decision results in fair compensation for Mr V 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.

Putting things right

Our investigator has suggested that Sainsbury's takes the actions detailed below, which I think is reasonable in the circumstances.

My final decision

I uphold this complaint. Sainsbury's Bank Plc should take the following actions:

End the agreement and rework the account removing all interest, fees, charges, and insurances (not already refunded) that have been applied;

If the rework results in a credit balance, this should be refunded to Mr V along with 8% simple interest per year* calculated from the date of each overpayment to the date of settlement. Sainsbury's should also remove all adverse information regarding this account from his credit file;

Or, if after the rework there is still an outstanding balance, Sainsbury's should arrange an affordable repayment plan with Mr V for the remaining amount. Once Mr V has cleared the balance, any adverse information in relation to the account should be removed from his credit file.

*If Sainsbury's consider that they are required by HM Revenue & Customs to deduct income tax from that interest, they should tell Mr V how much they've taken off. They should also give Mr V a tax deduction certificate if he asks for one, so he can reclaim the tax from HM Revenue & Customs if appropriate.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr V to accept or reject my decision before 20 December 2024.

Gregory Sloanes

Ombudsman