

The complaint

Ms S says Provident Personal Credit Limited (trading as Satsuma) lent to her irresponsibly. Ms S has also said Satsuma provided poor customer service when handling her complaint and in responding to her financial difficulties.

What happened

Ms S had two loans with Satsuma. The first was for £700 and commenced in April 2018 and the second was for £490 commencing in August 2018. Both loans were due in monthly instalments across twelve and nine months respectively.

Our adjudicator considered the complaint about irresponsible lending and recommended it be upheld in part. He didn't think Satsuma was right to have approved the second loan and said Satsuma should refund the interest Ms S had paid, write off any unpaid interest and remove any adverse information about the loan from Ms S' credit file. He also thought the £100 reduction Satsuma had made to the balance of the first loan was sufficient to compensate for Satsuma's customer service failings.

Ms S disagreed with the adjudicator's recommendation to not uphold the first loan. She said other companies had upheld her complaints and explained the impact the default recorded for the first loan had on her. Satsuma didn't respond to the adjudicator.

As there was no agreement the complaint was passed to me to decide.

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 short-term lending on our website and I've taken this into account in deciding Ms S' case.

Satsuma needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Ms S could repay her loans in a sustainable manner. These checks could take into account a number of different things, such as how much was being lent, the repayment amounts and Ms S' income and expenditure. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But certain factors might point to the fact that a lender should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These would include where:

- a consumer's income is low or the amount to be repaid takes up a substantial portion of their income
- the amount, or amounts, due to be repaid are higher
- there is a larger number and/or frequency of loans
- the period of time during which a customer has been provided with borrowing is long.

Like the adjudicator, I don't think Satsuma acted irresponsibly by approving loan 1. I've seen that it carried out a credit check for the first loan which showed that Ms S had no loans in arrears, no county court judgements and no other significantly adverse recent information. It also asked Ms S to provide information about her income and expenditure. Ms S declared total income of £4,000 per month and total expenditure of £1,900 - in theory leaving £2,100 of disposable income.

Satsuma also applied various 'buffers' and 'safeguards' to reduce Ms S' disposable income for the purposes of its affordability calculation. Having done that, it thought the monthly repayments of £116.20 looked affordable to Ms S. I don't think that was an unreasonable conclusion. I'm not therefore upholding the complaint about the first loan and so will not be asking Satsuma to make any refunds or amend Ms S' credit file in respect of this loan.

It seems the income and expenditure information Ms S provided when she applied for loan 2 was identical. But this time the results of Satsuma's credit check were different. Significantly, it showed Ms S had an account five payments in arrears. Given that Ms S had declared such a high disposable income, this is somewhat surprising, as was the information suggesting Ms S was also using other payday lenders since taking out the first Satsuma loan. The arrears also suggested a serious deterioration in Ms S' financial situation since the first loan. So on this occasion, I don't think Satsuma's checks were proportionate. It wasn't reasonable for it to rely so heavily on the information Ms S had provided. And had Satsuma carried out proportionate checks, I think it's unlikely it would've found the loan was sustainably affordable. I'm therefore upholding the complaint about the second loan.

Finally, I've considered what Ms S said about Satsuma's failure to communicate with her clearly. I can see Satsuma has accepted it wasn't always communicating clearly with Ms S and it apologised for that. It also explained that it hadn't accepted Ms S' proposal to pay £20 a month towards her debt as she hadn't provided details of her income and expenditure and so it couldn't assess the appropriateness of the proposal. But if offered to reduce the balance of her outstanding loan by £100 to compensate her for its unclear communications. I think that was a reasonable response and the payment was in line with this service's guidelines for causing Ms S distress and inconvenience.

Putting things right

Satsuma should rework the second loan to remove all interest and charges applied from the outset. It should treat any payments made by Ms S as if they were payments towards the principal. In the event Ms S has already repaid more than the principal borrowed, Satsuma should refund the payments above this amount, adding interest at 8% simple per year from when they were paid until the date of settlement**. Satsuma should also remove any adverse information it has recorded about loan two, although it doesn't have to do this until after the principal is repaid.

As Ms S still appears to be in financial difficulty, I remind Satsuma it should treat her positively and sympathetically.

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

My final decision

I uphold Ms S' complaint in part. Provident Personal Credit Limited must put things right by taking the steps set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms S to accept or reject my decision before 31 October 2019.

Matthew Bradford
Ombudsman