

The complaint

Ms S says Provident Personal Credit Limited - trading as Satsuma – irresponsibly lent to her.

What happened

This complaint is about three loans Satsuma provided to Ms S between January 2016 and December 2018. Ms S's borrowing history is as follows:

Loan	Date Taken	Date Repaid	Instalments	Amount	Highest Repayment
1	16/01/2016	04/02/2016	3	£150.00	£66.04
Break					
2	04/01/2018	26/01/2018	6	£400.00	£126.40
Break					
3	18/12/2018	Outstanding	12	£800.00	£132.80

In our most recent assessment, our adjudicator partially upheld Ms S's complaint and thought loan 3 shouldn't have been given. They thought this because the information Satsuma had gathered about Ms S showed she was having problems managing her money because she had defaults and a county court judgment (CCJ) on her credit file when she was given the loan.

Satsuma didn't reply to the assessment, so it has been passed to me to issue a final 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.

We've set out our general approach to complaints about short-term lending - including all of the relevant rules, guidance and good industry practice - on our website.

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 the loans in a sustainable manner. These checks could consider several different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. 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 Satsuma should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- 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 of time 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).

There may even come a point where the lending history and pattern of lending itself clearly demonstrates that the lending was unsustainable.

I think that it is important for me to start by saying that Satsuma was required to establish whether Ms S could sustainably repay his loans – not just whether the loan payments were affordable on a strict pounds and pence calculation.

Of course, the loan payments being affordable on this basis might be an indication a consumer could sustainably make their repayments. But it doesn't automatically follow this is the case. This is because the relevant regulations define sustainable as being without undue difficulties and the customer should be able to make repayments on time, while meeting other reasonable commitments; as well as without having to borrow to meet the repayments. And it follows that a lender should realise, or it ought fairly and reasonably to realise, that a borrower won't be able to make their repayments sustainably if they're unlikely to be able to make their repayments without borrowing further.

There were significant breaks in Ms S's borrowing from Satsuma. There was a gap of around two years between loans 1 and 2. Then a further gap of 11 months between loans 2 and 3. I think it would be reasonable for Satsuma to view these gaps as an indication that Ms S's finances had stabilised after whatever the circumstances were that had caused her to take out her previous loans. So, I will look at Ms S's borrowing in three separate lending chains.

In doing that, I've carefully considered all the arguments, evidence and information provided in this context and what this all means for Ms S's complaint. Having done this, I'm partly upholding Ms S's complaint about loan 3. I'll explain why.

In the recent review, our adjudicator didn't uphold Ms S's complaint about loans 1 and 2. Ms S didn't disagree with the adjudicator's findings. As there appears to be no dispute about these loans, I won't be making any further findings on them.

When Ms S took out loan 3, I think Satsuma ought to have realised that Ms S wouldn't have been able to make her repayments for her loan sustainably without taking out more lending. I can see Satsuma did income/expenditure and credit checks on Ms S before it lent this loan to her. And I can see that Satsuma has provided its findings from those checks, including the reports from the credit checks, to us.

Having reviewed all of this, I don't think Ms S was able to repay any of her loans in a sustainable manner. The credit check reports show that Ms S has a CCJ which had been applied to her account seven months previously. It also showed she had several defaults. I think this information ought to have prompted Satsuma to do further checks to verify what Ms S was telling it, before it lent to her.

Had Satsuma done proportionate checks, it's likely to have found that Ms S was borrowing from other short-term lenders. She was also earning significantly less than she declared to

Satsuma. In fact, in some months she didn't have any income expect from loans from short-term lenders. She was also making payments to a debt collection company which looks to recover debt linked to utilities.

I think all of this was a clear indication that Ms S was in a debt cycle and relying upon borrowing to repay borrowing. So, I'm also upholding the complaint about loan 3 and Satsuma should put things right.

Putting things right

If Satsuma has sold the outstanding debt Satsuma should buy it back if Satsuma is able to do so and then take the following steps. If Satsuma can't buy the debt back, then Satsuma should liaise with the new debt owner to achieve the results outlined below.

A) Satsuma should add together the total of the repayments made by Ms S towards interest, fees and charges on loan 3, not including anything Satsuma has already refunded.

B) Satsuma should calculate 8% simple interest[†] on the individual payments made by Ms S which were considered as part of "A", calculated from the date Ms S originally made the payments, to the date the complaint is settled.

C) Satsuma should remove all interest, fees and charges from the balance on loan 3, and treat any repayments made by Ms S as though they had been repayments of the principal on all outstanding loans. If this results in Ms S having made overpayments then Satsuma should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled. Satsuma should then refund the amounts calculated in "A" and "B" and move to step "E".

D) If there is still an outstanding balance then the amounts calculated in "A" and "B" should be used to repay any balance remaining on loan 3. If this results in a surplus, then the surplus should be paid to Ms S. However, if there is still an outstanding balance then Satsuma should try to agree an affordable repayment plan with Ms S. Satsuma shouldn't pursue outstanding balances made up of principal Satsuma has already written-off.

E) Satsuma should remove any adverse information recorded on Ms S's credit file in relation to loan 3.

† 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

For the reasons given above, I'm partially upholding Ms S's complaint. Provident Personal Credit Limited should put things right as 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 30 July 2020.

Claire Marchant-Williams
Ombudsman