

The complaint

Miss D says Provident Personal Credit Limited (trading as Satsuma) irresponsibly lent to her.

What happened

This complaint is about five instalment loans Satsuma provided to Miss D between May 2016 and April 2019. Miss D borrowed amounts ranging between £200 and £800 to be repaid in instalments over six to twelve months. There was a nine month gap between Miss D repaying loan two and taking out loan three. There are amounts outstanding for loans three to five.

Our adjudicator didn't uphold Miss D's complaint. Miss D disagreed and so the complaint was passed to me for 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 that Miss D could repay the 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 the consumer'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 Satsuma should fairly and reasonably have done more to establish that any lending was sustainable for the consumer. These factors include:

- the *lower* a customer'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 Miss D could sustainably repay her 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 in particular 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.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss D's complaint.

Satsuma asked Miss D for information about her income and expenditure and it carried out credit checks. Miss D said she earned about £1,350 a month. She said her outgoings ranged between £100 and £570 a month. I can't see that Satsuma's credit checks found anything untoward that should have prompted further checks.

I think the gap between the repayment of loan two and Miss D taking out loan three was significant. And so I think Satsuma could reasonably treat loan three as the start of a new chain of lending and carry out the affordability checks that were appropriate.

I think Satsuma's checks went far enough for loans one to three. Given the loan amounts, what was apparent about Miss D's circumstances at the time and her history with Satsuma, I don't think it would've been proportionate to ask her for the amount of information needed to show the lending was unsustainable. There wasn't anything in the information Miss D provided or the information Satsuma should've been aware of, which meant it would've been proportionate to start verifying what Miss D was saying. These three loans looked affordable for Miss D, so I can't say Satsuma was wrong to have provided them.

I think Satsuma should have made better checks for loans four and five. Miss D still had loan three outstanding and she increased her borrowing and monthly repayments significantly. I think Satsuma should then have verified what Miss D told it about her circumstances, including her other short-term borrowing, to check that she could sustainably repay her loans.

Miss D said that loans four and five shouldn't have been provided. She said the repayments for them were unmanageable. I was sorry to hear of Miss D's financial difficulties. But from the information available I can't say that Satsuma should have known that Miss D would be unable to sustainably repay loans four and five.

The combined repayments for loans three to five meant that the highest expected monthly repayment was large. But I can't say that it was significant enough to stop Satsuma from approving loan five. I also can't say that the pattern of lending should have alerted Satsuma that Miss D was experiencing financial difficulties as this was Miss D's third loan in this chain of lending. From the information Satsuma had available, the loans looked affordable. So I can't say it was wrong for Satsuma to have provided loans four and five.

I can see that Miss D has amounts outstanding for loans three to five. When a consumer experiences financial difficulties, we expect the business to respond positively and sympathetically.

My final decision

For the reasons given above, my final decision is that I don't uphold Miss D's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss D to accept or reject my decision before 7 July 2020.

Phillip Berechree
Ombudsman