

## The complaint

Miss A says Provident Personal Credit Limited, trading as Satsuma (“Satsuma”), irresponsibly lent to her. Miss A has told us that at the time of the lending she was already struggling financially. She says that Satsuma encouraged her to borrow more than she could afford. Satsuma should have known about her financial position but failed to check her outgoings. Miss A has suffered because of the borrowing.

## What happened

This complaint is about six short-term loans Satsuma provided to Miss A between December 2014 and July 2018. There are three chains of borrowing – loans one and two, loan three, and then loans four to six. Miss A’s borrowing history is as follows:

Loan	Date Taken	Date Repaid	Instalments	Amount
1	24/12/2014	23/03/2015	13 Weekly	£100.00
2	07/04/2015	13/07/2015	13 Weekly	£100.00
Break				
3	16/08/2016	13/02/2017	39 Weekly	£200.00
Break				
4	22/12/2017	15/07/2018	6 Monthly	£250.00
5	26/02/2018	outstanding	12 Monthly	£850.00
6	22/07/2018	outstanding	12 Monthly	£800.00

Our adjudicator partially upheld Miss A’s complaint and thought loan six shouldn’t have been given. Satsuma agreed and offered to pay redress for loan six but because there is an outstanding balance on loans five and six, nothing would be repayable to Miss A.

Miss A disagreed with the offer and didn’t think it was enough. She thought that none of the lending should have been given.

As the complaint remains unresolved, it has been passed to me for decision in my role as ombudsman.

## 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 Miss A 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 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 Miss A 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.

Miss A disagreed with the adjudicator's assessment and didn't think that any of the lending should have been given. I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss A's complaint. And after doing so, I've decided to uphold the complaint in part. I'll explain why.

First, I should say that I am satisfied there were three chains of lending. Loan three was taken out 13 months after loan two was repaid. And loan four was taken out ten months after loan three was repaid. Because of this, I don't think it's unreasonable for Satsuma to have assumed that Miss A had overcome whatever financial circumstances had caused her to take high-cost credit in the first and second instance. A break in a chain of lending in effect, starts the 'clock ticking' again on what we would consider to be proportionate checks a business should carry out when taking into account the length of the borrowing relationship with a consumer.

Satsuma has shown this service the checks it carried out before approving any of the borrowing. And it has told us that when taking into account a consumer's declared expenditure, it will add a safeguard amount as a reflection of the credit bureaus' information it has gathered and its own internal models.

#### Loans one and two

For loan one Miss A told Satsuma she earned £1,039 per month with an expenditure of £300. And for loan two her income was declared as £1,108 and outgoings of £200. The two loans were for a relatively modest sum and to be repaid over three months, so the lending looks affordable on a pounds and pence basis. I don't think it was unfair of Satsuma to have given these loans to Miss A.

#### Loan three

Loan three is a single loan in a 'chain'. Miss A told Satsuma she earned £1,500 with £300 of outgoings, the repayments were to be made over ten months so again this looks affordable for Miss A. I don't think Satsuma's decision to lend was unreasonable.

#### Loans four and five

After a gap of ten months Miss A returned for more borrowing at loan four. For loans four to six Miss A's income is recorded at £1,500 and outgoings of £300. Again, and despite loans five and six being for much larger sums than previously borrowed, on the face of it the repayments look affordable.

As I've said above, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate. And I don't think there was anything in the information that Miss A provided to Satsuma, or that it had gathered, which would have caused it to be concerned that she was having problems managing her finances.

So, in conclusion, I don't think that Satsuma was unreasonable when agreeing to loans one to five. I do accept it's possible that Miss A's financial circumstances weren't correctly reflected in either the information she provided, or any other information Satsuma obtained. And if her circumstances were different, Miss A's actual financial position may well have been more apparent if further information – such as bank statements or more in-depth credit checks – had been obtained.

But Satsuma could only make a decision based on the information it had available at the time. And as it was still in the early stages of a lending relationship, I don't think it had reached the stage where Satsuma should have concluded there was a greater risk of the loans being unsustainable for Miss A. In these circumstances, I don't think Satsuma needed to take further steps to verify the information provided – such as asking Miss A for evidence of her income and outgoings which Satsuma could have gathered from her bank statements or copies of any bills, as examples.

I have considered the information Satsuma was provided with before it lent to Miss A. And there isn't anything in this information that may have led Satsuma to conclude that it should decline Miss A's application for loans one to five. And there isn't anything to have prompted it to ask for more information from Miss A. So, I don't think Satsuma was wrong to have provided loans one to five, based solely on the information it had.

#### Loan six

But I do think that Miss A's borrowing behaviour when she applied for loan six should have caused Satsuma to reconsider whether it should carry on lending to Miss A. When Miss A applied for loan six, loan five – the largest loan Miss A had taken – was still outstanding and still had seven months to run so the monthly repayments would correspondingly increase when loan six was given. Also, I note that a couple of repayments on loan five had been made late.

At this point I think Satsuma should have done more to build a better picture of Miss A's financial circumstances, and if it had done so, I think it would have seen that Miss A was using other short-term credit providers as well as Satsuma. I think at this point Satsuma should have realised that Miss A was having problems managing her money, and that it wouldn't have been unreasonable to refuse any further borrowing.

I do think Satsuma should have looked further into Miss A's financial circumstances when she applied for loan six. And those checks would have shown that it shouldn't have lent to Miss A.

So, like the adjudicator, I'm also upholding the complaint about loan six only. I know Miss A will be disappointed in the outcome, but I hope my comments have explained how I've reached the conclusion that I have.

I know Satsuma has already made an offer for loan six in line with our adjudicator's assessment. So, I think Satsuma has done enough and I won't be asking it to do anything further.

### **My final decision**

For the reasons given above, I'm partially upholding Miss A'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 Miss A to accept or reject my decision before 19 June 2020.

Catherine Langley  
**Ombudsman**