

The complaint

Mr W's complaint concerns three loans taken out with Provident Personal Credit Limited (trading as Satsuma Loans). He says the loans were irresponsibly lent.

What happened

Mr W took three instalment loans with Satsuma between June 2016 and May 2018. A summary of Mr W's borrowing is shown below.

Loan	Date Taken	Date Repaid	Instalments	Amount	Repayment
1	01/06/2016	25/09/2017	26 weeks	£300.00	£22.10
2	05/02/2018	25/02/2019	12 months	£500.00	£83.00
3	31/05/2018	25/04/2019	12 months	£1,200.00	£199.20

Our adjudicator considered the complaint but didn't think it should be upheld. Mr W did not agree; he said the finding was inconsistent with his other complaints against other lenders. These concerned loans that were taken out around the same time and the lending was found to be irresponsible. Mr W feels loans 2 and 3 shouldn't have been given because of his credit score and existing borrowings at the time. He had more than one outstanding short-term loan at the time both loans were taken. He had also struggled to keep the payments up on loan 2 when loan 3 was granted.

I issued my provisional decision on 10 January 2020 explaining why I was thinking of reaching a different conclusion to the adjudicator and upholding Mr W's complaint about loans 2 and 3.

Mr W has confirmed he has nothing further to add. Satsuma hasn't responded to my provisional decision.

What I've decided – and why

I've reconsidered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

As neither party has provided any further evidence or arguments for consideration, I see no reason to depart from the conclusions set out in my provisional decision. For completeness, I have set this out below.

I should start by saying that just because other complaints have been upheld it does not mean that should automatically be the case here. Each case is judged on its own merits and what - on the face of it - appear to be based on a similar set of facts - often transpires not to be the case.

We've explained how we handle complaints about short term lending on our website and I've used this approach to help me decide Mr W's complaint.

The Financial Conduct Authority (FCA) was the regulator when Satsuma to Mr W. The FCA's Consumer Credit sourcebook (CONC) is the specialist sourcebook for credit-related regulated activities. It sets out the rules and guidance specific to consumer credit providers, such as Satsuma.

It is important to note that the FCA didn't, and doesn't, specify exactly how an assessment of affordability is to be carried out but the "*extent and scope*" and the "*types and sources of information to use*" needed to be enough to be able to reasonably assess the sustainability of the arrangement for the consumer.

In other words, the assessment needs to be consumer-focussed. It is not an assessment of the risk to the lender of not recovering the credit but of the risk to the consumer of incurring financial difficulties or experiencing significant adverse consequence as a result of the decision to lend.

CONC may not mention the number of previous loans a customer has had with a particular creditor as a relevant factor in determining what verification checks are proportionate. But as outlined in my provisional decision, as set out in CONC, the risk to the consumer directly relates to the particulars of the lending and the circumstances of the consumer. Therefore, a lender's assessment of creditworthiness would likely need to be flexible. That is to say, what is sufficient for one consumer might not be for another, or indeed what might be sufficient for a consumer in one circumstance might not be so for the same consumer in other circumstances.

Bearing the above in mind, I would expect an assessment of creditworthiness to vary with circumstance. In general, I'd expect a lender to require more assurance, the greater the potential risk to the consumer of not being able to repay the credit in a sustainable way.

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, *but are not limited to*:

- 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 demonstrates that the lending was unsustainable.

Satsuma said it undertook a full credit worthiness and affordability assessment - including taking declared values from Mr W. It says it also added additional safeguards to the customer's expenditure.

I think the checks Satsuma carried out were proportionate for the first loan and the information Mr W provided indicated that the loan was affordable. This was Mr W's first loan with Satsuma, so I think it was entitled to rely on the information Mr W provided. At this stage I don't think Satsuma needed to specifically ask about other outstanding short-term loans Mr W may have had or verify the information Mr W provided.

However, I think Satsuma needed to do more when Mr W took out loan 2. Loan 1 had a 26-week term and was due to end in December 2016. But Mr W had problems repaying the £22.10 weekly instalment. It was a further nine months before Mr W finally repaid this first loan, in September 2017. There was then a gap of around five months between the late repayment of loan 1 and loan 2. However, loan 2 was for a larger amount and Mr W needed to sustain repayments over a 12-month term.

So I think Satsuma should have done more than rely on the information Mr W was providing about his finances and the credit searches it did. I think it should have taken steps at this time to independently verify Mr W's actual financial position.

Mr W provided us with his bank statements and his credit file, so we could see what better checks would have shown Satsuma. If it had done further checks for loan 2, it's likely it would have discovered:

- Mr W's salary was slightly more than he declared - around £1,278
- Mr W had one outstanding short term loan to which he was paying monthly instalments of around £118
- Mr W was paying almost half his salary towards a running credit facility
- Mr W was also making regular payments of around £198 to a high cost longer term loan

In addition, Mr W had other credit commitments such as credit cards. So as a responsible lender, I think Satsuma would have realised that Mr W was having problems managing his money and couldn't sustainably afford loan 2. And on this basis it would not have agreed to lend.

I've also looked at the overall pattern of Satsuma's lending history with Mr W, with a view to seeing if there was a point at which Satsuma should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Satsuma should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Mr W's case, I think that this point was reached by 3. I say this because:

- Satsuma ought to have realised Mr W was not managing to repay his loans sustainably. Mr W had been indebted to Satsuma for 18 months. So Satsuma ought to have realised it was more likely than not Mr W was having to borrow further to cover the hole repaying his previous loan was leaving in his finances and that Mr W's indebtedness was increasing unsustainably.
- Mr W's first loan was for £300 and loan 3 was for £1,200. At this point Satsuma ought to have known that Mr W was not likely borrowing to meet a temporary shortfall in his income but to meet an ongoing need.
- Mr W wasn't making any real inroads to the amount he owed Satsuma. Loan 3 was taken out 18 months after Mr W's first loan. And it was for four times the amount. Mr W had paid large amounts of interest to, in effect, service a debt to Satsuma over an extended period.

I think that Mr W lost out because Satsuma continued to provide borrowing from loan 3 because:

- this loan had the effect of unfairly prolonging Mr W's indebtedness by allowing him to take expensive credit intended for short-term use over an extended period of time.
- the length of time over which Mr W borrowed was likely to have had negative implications on Mr W's ability to access mainstream credit and so kept him in the market for these high-cost loans.

So I'm also upholding the complaint about loan 2 as well as loan 3 and Satsuma should put things right as set out below.

Putting things right - what Satsuma needs to do

- refund all interest and charges Mr W paid on loans 2 and 3;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid to the date of settlement†;
- remove any negative information about loan 2 from Mr W's credit file;
- the length of time over which Mr W borrowed by loan 3 means any information recorded about this loan is adverse. So all entries about loan 3 should be removed from Mr W's credit file.

† HM Revenue & Customs requires Satsuma to take off tax from this interest. Satsuma must give Mr W a certificate showing how much tax it's taken off if he asks.

My final decision

For the reasons set out above and in my provisional decision I've decided to partially uphold Mr W's complaint and direct Provident Personal Credit Limited (trading as Satsuma Loans) to put things right as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 24 February 2020.

Kathryn Milne
Ombudsman