

The complaint

Mr M says Provident Personal Credit Limited, trading as Satsuma (“Satsuma”), irresponsibly lent to him. Mr M has told us he was in a cycle of debt and had borrowing with other short-term lenders as well as Satsuma.

What happened

This complaint is about one short-term loan Satsuma provided to Mr M in July 2017. Mr M’s loan was for £1,000 and was to be repaid over 12 months. The monthly repayment was £166.

Our adjudicator didn’t uphold Mr M’s complaint. They thought the checks Satsuma had carried out before lending to him were reasonable and the information it obtained wouldn’t have given it any cause to reconsider giving him the loan.

Mr M disagreed with the adjudicator. He explained how bad his financial circumstances were at the time of the borrowing, he was borrowing from other short-term lenders and that he had to take a second job. He says he shouldn’t have been given the lending.

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 Mr M could repay the loan 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 Mr M 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 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 Mr M's complaint.

Satsuma has told this service about the checks it carried before approving the borrowing. This included information about Mr M's income and expenditure to establish whether the loan was affordable to Mr M. It also included a credit risk assessment.

Mr M was employed, and his earnings were recorded as being £1,750 a month. His expenditure was £1,150 a month to which Satsuma added a buffer amount of £65 per month. So, this would have left Mr M with a disposable monthly income of £369 after taking account of the monthly loan repayments. Taking this into account I don't think the loan looks unaffordable on a pounds and pence basis.

As I've said above, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate. But I don't think there was anything in the information that Mr M provided to Satsuma which would have caused it to be concerned that he was having problems managing his finances.

It's possible that Mr M's financial circumstances weren't correctly reflected in either the information he provided, or any other information Satsuma obtained. And if his circumstances were different, Mr M'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. Mr M has given us a copy of his bank statements and I see that he was using other short-term credit providers, but I wouldn't have expected Satsuma to have gathered this information at the first point of lending to him.

Satsuma could only make a decision based on the information it had available at the time. That information – and the fact the loan was the beginning of the lending relationship –

I don't think indicated there was a greater risk of the loan being unaffordable or unsustainable for Mr M.

In these circumstances, I don't think Satsuma needed to take further steps to verify the information provided – such as asking Mr M for evidence of his income and outgoings which Satsuma could have gathered from his bank statements or copies of any bills, as examples. I have considered the information Satsuma was provided with before it lent to Mr M. And there isn't anything in this information that may have led Satsuma to conclude that it should decline Mr M's application for the loan. And there isn't anything to have prompted it to ask for more information from Mr M. So, I don't think Satsuma was wrong to have provided this loan, based solely on the information it had.

So overall, in these circumstances, I think the assessment Satsuma did for this loan was proportionate. And I think its decision to lend to Mr M wasn't unreasonable. I appreciate my conclusion to Mr M's complaint will be a disappointment to him, but I hope I have managed to explain how and why I've reached it.

My final decision

For the reasons given above, I'm not upholding Mr M's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 26 June 2020.

Catherine Langley
Ombudsman