

## The complaint

X says Provident Personal Credit Limited, trading as Satsuma (“Satsuma”), irresponsibly lent to him. X says the affordability of the loans wasn’t assessed and the impact of the lending has been significant for him.

## What happened

This complaint is about two short-term loans Satsuma provided to X between November 2015 and August 2016. X’s borrowing history is as follows:

Loan	Date Taken	Date Repaid	Instalments	Amount	Repayment
1	04/11/2015	09/08/2016	39 weekly	£300.00	£76.55*
2	16/08/2016	15/08/2017	52 weekly	£400.00	£76.55*

\*This is the highest monthly repayment taking into account five weekly payments in one month.

The second of our adjudicators who assessed the case upheld X’s complaint and thought the loans shouldn’t have been given as the repayments left X with limited or negative disposable income each month.

Satsuma hasn’t responded to the adjudicator’s assessment. 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 X 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 X 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 X's complaint. After doing so I've decided to uphold the complaint. I'll explain why.

Satsuma has told us about the checks it carried out before it lent to X. This included a credit risk assessment, fraud and anti-money laundering checks and an affordability assessment.

The affordability assessment for loan one shows that X had a monthly income of £1,700 and monthly expenditure of £1,200. Satsuma also add a safeguard buffer which increased X's outgoings by £392.96 so that his monthly expenditure was recorded as being £1,592.96. This left X with a monthly disposable income of £107.04. After taking into account the highest monthly repayment for loan one of £76.55, this would only leave X with a monthly disposable income each month of £30.49. Bearing in mind the loan was to be repaid over a little under ten months I don't think the lending was affordable for him. And I don't think its likely X wouldn't have had some unforeseen expenditure in that ten month period, so it wasn't likely that the lending would be sustainable for him.

For loan two – which was to be repaid over 12 months – X's income was again recorded as being £1,700 per month and expenditure remained at £1,200. Again, Satsuma added a safeguard buffer, this time for the amount of £429.86. So, taking this into account Satsuma calculated that X would have a disposable income each month of £70.14. The highest monthly loan repayment was again £76.55 so X would be in a financially negative position each month.

In both cases Satsuma was aware of this information about X's financial circumstances before it lent to him. So, it should have realised both loans were unaffordable for him and it shouldn't have lent to him.

So, like the second adjudicator, I'm also upholding the complaint about loans one and two and Satsuma should put things right.

### **Putting things right – what Satsuma needs to do**

- refund all interest and charges X paid on loans one and two;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;
- remove any negative information about loans one and two from X's credit file;

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

### **My final decision**

For the reasons given above, I'm upholding X'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 X to accept or reject my decision before 31July2020.

Catherine Langley  
**Ombudsman**