

Complaint

Mr W says Provident Personal Credit Limited trading at the time as 'Satsuma' irresponsibly lent to him.

Mr W is represented by a third party.

Background

Mr W borrowed £600 from Satsuma on 13 July 2017. The loan was set to run for six months. It appears this loan is still outstanding.

Our adjudicator didn't think this complaint should be upheld. He said given the loan amount and what was apparent about Mr W's circumstances, it wouldn't have been proportionate to ask for the amount of information needed to show the lending was unsustainable. He said there was nothing in the information provided that meant it was proportionate to start verifying this information. Our adjudicator also explained that he didn't think the period the loan was borrowed for would've shown that Mr W was experiencing financial difficulty.

Mr W didn't accept the adjudicator's view. He said, through his representative that the checks carried out by Satsuma weren't sufficient – it would have been reasonable for it to have conducted further checks and verify what Mr W told it before granting the loan. If it had, it would have been brought to Satsuma's attention that Mr W's outgoings were far in excess of those assessed by Satsuma. Not only did Mr W not have any disposable income, but he already had a number of payday loans from other companies.

As no agreement could be reached, the complaint has been referred to an ombudsman for a final decision.

My findings

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 Satsuma 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 Mr W 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 W's complaint.

As I've explained above, early in the lending relationship, I wouldn't have expected Satsuma to undertake a full review of Mr W's circumstances. In this case when looking at the checks Satsuma carried out and thinking about what it knew about Mr W's circumstances from those checks, I think the checks it did were proportionate and I don't think it would have needed to verify what Mr W was saying.

When Satsuma gave Mr W his loan, he told it that his income was £2,400 per month. He said his housing costs were £600, his financial commitments were £180, and his other expenditure was £275 - leaving Mr W based on his own figures with £1,345. Satsuma applied further safeguards which increased Mr W's declared expenses to £1,533.91 and it added a further expenses buffer of £33. Based on its own checks, Satsuma reasonably believed Mr W had a disposable income of £643.49, taking into account the repayment amount of £189.60 for this loan. Its checks also revealed no bankruptcy, no judgments and no debt management plan. These checks also showed two other payday loans in the last month and no active credit accounts in arrears.

I don't think there was anything in the checks Satsuma carried out that would have led it to think this loan was unaffordable or unsustainable even if in hindsight this turned out to be the case. When it gave Mr W his loan this was the first loan it had made to Mr W and I think it factored in some additional expenditure when deciding whether Mr W had sufficient income to afford the loan.

Overall, I think Satsuma's assessment for this loan was proportionate and the checks carried out likely showed Mr W could afford it and it was sustainable.

I understand there is an outstanding balance on this loan. I remind Satsuma of its obligation to treat Mr W fairly.

I'm sorry to disappoint Mr W but for the reasons I've set out above I don't uphold this complaint.

My final decision

For the reasons given above, I don't uphold this complaint. I don't require Provident Personal Credit Limited to take any further action in respect of it.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr W to accept or reject my decision before 3 August 2020.

Nicola Woolf
Ombudsman