

The complaint

Mr Y has complained about the loans he took out with Provident Personal Credit Limited trading as Satsuma Loans. He says the loans were unaffordable.

What happened

Mr Y took 13 loans from Satsuma between February 2014 and July 2019. Some of the information Satsuma provided is summarised below.

Loan	Date Taken	Date Repaid	Instalments	Amount	Repayment
1	22/02/2014	02/04/2014	13 (weekly)	£150.00	£80.75
2	12/04/2014	28/07/2014	13 (weekly)	£300.00	£161.55
3	07/08/2014	18/09/2014	26 (weekly)	£500.00	£161.55
4	20/09/2014	18/11/2014	13 (weekly)	£200.00	£86.16
		SIGNIFICANT	GAP		
5	03/07/2015	11/08/2015	13 (weekly)	£200.00	£107.70
6	11/08/2015	28/10/2015	13 (weekly)	£300.00	£161.55
7	29/10/2015	12/01/2016	13 (weekly)	£220.00	£121.10
		SIGNIFICANT	GAP		
8	11/07/2017	22/08/2017	3	£400.00	£196.80
9	02/10/2017	13/11/2017	5	£700.00	£246.40
10	18/11/2017	21/10/2018	3	£900.00	£442.80
11	14/11/2018	19/01/2019	12	£900.00	£149.40
12	19/01/2019	Outstanding	12	£300.00	£199.20
13	09/07/2019	Outstanding	12	£900.00	£348.60

Our adjudicator upheld loan 4 and loans 10-13. Satsuma made an offer in line with the adjudicator's recommendations. Mr Y did not agree. He said he was in a bad position financially. He says he fell into arrears on several of these loans and was issued with default notices – so Satsuma should not have continued to lend to him.

I issued my provisional decision on 11 May 2020 explaining why I was thinking of upholding loans 8 and 9 as well as loan 4 and loans 10-13. I also explained why I wasn't considering upholding loans 1-3 and loans 5-7.

Satsuma did not provide any further comments or evidence. Mr Y responded to my provisional decision. He asked me to reconsider loans 6 and 7. He said both loans 6 and 7 were taken out on the same day or the very next day after the previous loan was settled. He also said at the time he took loan 7 he did have other short term lending outstanding.

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. I've also taken into account all the relevant rules, guidance and good industry practice.

Having done so, my decision remains the same. For completeness, I have set my provisional decision out below and addressed Mr Y's comments within it to form my final decision.

Satsuma needed to take reasonable steps to ensure that it didn't lend irresponsibly. In practice this means that it should have carried out reasonable checks to understand whether Mr Y could repay his 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.

So 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. With this in mind, in the early stages of a lending relationship, I think less thorough checks might be reasonable and proportionate.

But I might think a lender might need to do more if, for example, the consumer's income was low or the amount lent or monthly repayment was high. And the longer the lending relationship goes on, the greater the risk of it becoming unsustainable and the borrower experiencing financial difficulty. So I'd expect a lender to be able to show that it hasn't continued to provide loans to a customer irresponsibly.

Satsuma says it agreed loans 1-3 and 5-9 after Mr Y provided details of his monthly income and expenditure. This information didn't suggest that Mr Y wouldn't be able to make the repayment he was committing to. And in these circumstances, Satsuma felt it wasn't irresponsible to lend.

Loans 1 and 2

The information provided by Satsuma does suggest that Mr Y was asked to declare details of his monthly income, along with a breakdown of his monthly expenses. Given the repayments – the loans appeared affordable based on the information Mr Y declared to Satsuma.

I accept that Mr Y's actual circumstances weren't reflected in the information he provided. But, in the absence of anything to suggest that it was likely to be unreliable, Satsuma was entitled to rely on the information Mr Y provided. I don't think there was any reason for Satsuma to doubt the information Mr Y gave it. The repayments that Mr Y agreed to make on his loans were relatively modest compared to the monthly income that he declared to Satsuma.

And, even after allowing for his regular monthly expenditure and other borrowing, I'm satisfied that the repayments would have appeared to be easily affordable for Mr Y.

So given these repayment amounts, what was apparent about Mr Y's circumstances at the time, and his lack of borrowing history with Satsuma, I don't think it would've been proportionate for Satsuma to ask him for the amount of information that would be needed to show the lending was unsustainable. So, I don't think Satsuma was wrong to give loans 1-2.

Loan 3

As well as the information Mr Y declared about his income and expenses for loan 3, Satsuma also had a small repayment history at this point. I can see Mr Y missed payments on loan 2 in June and July 2014. Satsuma's contact notes indicate that this was due to Mr Y's card being 'blocked'. I don't think this on its own was enough at this stage to have alerted Satsuma to any concerns when it agreed loan 3. So I don't think Satsuma was wrong to give loan 3 either.

Mr Y missed payments during loan 3 - although again the reasoning on each occasion did not seem to specifically indicate Mr Y was having affordability issues (rather it was due to the collection timing, change in payment dates etc). It may have been reasonable for Satsuma to have carried out more in-depth checks before agreeing loan 4, but as it has already agreed to make an offer on loan 4, I haven't considered this further.

Loan 5, 6 and 7

There was a declined application shortly after loan 4 ended but then there was almost an eight-month gap between that declined application and when loan 5 was agreed. I don't think it was unreasonable for Satsuma to have considered Mr Y's position had recovered in the 7-8 months that has passed by. So, I think it reasonable for the level of checks to be less (rather than more) thorough. On this basis, I think the checks Satsuma did were enough and the information Mr Y declared about his income and expenses suggested the loan repayments were affordable. So, I don't think Satsuma did anything wrong when it agreed this loan either.

Loan 5 was repaid in accordance with the schedule up until its early settlement. I accept loans 6 and 7 were taken very shortly after the previous loan was repaid but I don't think that Satsuma ought to have concluded that the pattern of lending had, in itself, become demonstrably unsustainable or harmful – such that I could reasonably say that the facts spoke for themselves by loan 6 or loan 7. I say this because the lending relationship had effectively started again at loan 5. Loan 5 was preceded by a long gap in lending and it was reasonable for Satsuma to treat Mr Y as a new borrower given that gap. Loan 5 was repaid without any repayment issues. So, although Mr Y returned the same day for loan 6 (and it was a for a larger amount), I still don't think Satsuma was wrong to agree loan 6.

During loan 6, Mr Y missed a payment on 10 September 2015 but two days later Mr Y caught up with this payment and also made an over payment covering the next two weeks. He explained to Satsuma he missed the payment because he had not transferred the money across from his savings account. Mr Y then missed the next four weekly payments before

settling the loan early explaining that he moved to a new house and had more important things to pay for.

Mr Y then applied for loan 7, the day after loan 6 was repaid. Bearing in mind the history of repayment issues Mr Y now had, I think Satsuma should have enhanced its checks to also ask Mr Y specifically about any other short term lending he had outstanding, as well as asking about details of his income and expenditure. I don't think it needed to fully review and verify his actual financial situation at this point.

Mr Y has provided us with his bank statements and credit file – so I've looked at these to see what other short-term lending was outstanding at the time he applied for loan 7. In my provisional decision I said I could see Mr Y had repaid two short term loans the previous day but Mr Y says he did have a loan outstanding at the time.

Having reviewed these again, I can see a credit from a short-term lender on 28 September 2015 for £300 and it looks like this was repayable over two payments of around £205 - as debits were made to the same lender on 28 October 2015 and 27 November 2015. So, I agree this loan was outstanding at the time of Mr Y's application for loan 7.

However, I would normally uphold a complaint where there were significant levels of other short term lending and I don't think one loan with this level of repayment was significant. If Satsuma had taken this into account, along with the income and expenses declared (£1,700 and £1,168), then I still think it would have considered the repayment of £121 on loan 7 affordable. So, I'm not upholding Mr Y's complaint about loan 7.

As I said in my provisional decision, I don't think at this point Satsuma needed to fully verify the information Mr Y declared, so I don't think it would have discovered Mr Y's actual financial position at this point. I think Satsuma was right to be concerned after loan 7 was repaid as it seems it was when declined Mr Y's application a couple of days after loan 7 was repaid.

Loans 8 and 9

Loan 7 was repaid – although again there were a number of repayment issues during its term. Whilst there was an 18-month gap in lending before loan 8, there were 6 declined loan applications during this time. I think given this and the history that was emerging with the various repayment issues Mr Y was having, it would have been prudent for Satsuma to fully review and verify Mr Y's actual financial position before agreeing loan 8. If it had, it would have discovered that Mr Y had at least 4 other short terms loans with other lenders. The position was similar for loan 9. And as a responsible lender, Satsuma would have been concerned that Mr Y wasn't in a position to sustainably repay loans 8 and 9. So, I'm upholding Mr Y's complaint about loans 8 and 9 as well as loan 4 and loans 10 to 13.

Putting things right

Satsuma shouldn't have agreed loan 4 and loans 8 to 13 and should put things right as set out below:.

A. Satsuma should add together the total of the repayments made by Mr Y towards interest, fees and charges on all upheld loans without an outstanding balance.

B. Satsuma should calculate 8% simple interest* on the individual payments made by Mr Y which were considered as part of "A", calculated from the date Mr Y originally made the payments, to the date the complaint is settled.

C. Satsuma should remove all interest, fees and charges from the balance on any upheld outstanding loans, and treat any repayments made by Mr Y as though they had been repayments of the principal on all outstanding loans. If this results in Mr Y having made overpayments, then Satsuma should refund these overpayments with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled. Satsuma should then refund the amounts calculated in “A” and “B” and move to step “E”.

D. If there is still an outstanding balance then the amounts calculated in “A” and “B” should be used to repay any balance remaining on outstanding loans. If this results in a surplus then the surplus should be paid to Mr Y. However, if there is still an outstanding balance then Satsuma should try to agree an affordable repayment plan with Mr Y.

E. Satsuma should remove any adverse information it has recorded on Mr Y’s credit file in relation to loan 4 and loans 8 to 11. The overall pattern of Mr Y’s borrowing for loans 12 onward means any information recorded about them is adverse, so Satsuma should remove these loans entirely from Mr Y’s credit file.

Satsuma do not have to remove any outstanding loans from Mr Y’s credit file until these have been repaid, but Satsuma should still remove any adverse information recorded about these loans.

*HMRC requires Satsuma to take off tax from this interest. If Mr Y asks Satsuma for a certificate showing how much tax it has taken off, Satsuma should provide this. If Satsuma intends to use the refund to reduce an amount Mr Y owes, Satsuma must do this after tax.

My final decision

My final decision is that I partially uphold Mr Y’s complaint as I’ve explained above and in my provisional decision. I require Provident Personal Credit Limited trading as Satsuma Loans to put things right for Mr Y as set out above.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr Y to accept or reject my decision before 24 June 2020.

Kathryn Milne
Ombudsman