DRN-1700780

The complaint

Mr A says Provident Personal Credit Limited — trading as Satsuma — irresponsibly lent to him.

What happened?

This complaint is about six instalment loans Satsuma provided to Mr A between January 2015 and May 2019. Mr A's borrowing history is outlined below:

Loan	Date Taken	Date Repaid	Instalments	Amount	Highest Combined Repayment
1	22/01/2015	27/03/2015	13 weeks	£200.00	£43.08
Break					
2	16/09/2017	15/02/2018	7	£450.00	£128.25
3	10/11/2017	28/09/2018	10	£400.00	£208.25
4	11/04/2018	11/12/2018	12	£510.00	£164.66
5	09/12/2018	04/04/2019	12	£1,500.00	£333.66
6	29/05/2019	outstanding	12	£2,000.00	£332.00

Our adjudicator thought loan 6 shouldn't have been given because the overall pattern of Mr A's borrowing indicated he was reliant on these loans and the borrowing was becoming unsustainable.

Satsuma didn't respond to the adjudicator's assessment, but it looks like Satsuma has since made an offer to Mr A, but Mr A asked for a final decision.

So, the complaint has been passed to me for a final decision.

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 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 A could repay the loans in a sustainable manner.

These checks could consider several different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. 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 level of income);
- the *greater* the number and frequency of loans, and the longer the period 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 A 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 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 the arguments, evidence and information provided in this context and what this all means for Mr A's complaint. Having done so, I am partially upholding the complaint. I'll explain why.

There was a significant break in Mr A's borrowing from Satsuma. There was a gap of around two and a half years between loans 1 and 2. I think it would be reasonable for Satsuma to view this gap as an indication that Mr A's finances had stabilised after whatever the circumstances were that had caused him to take out his previous loan. So, I will look at Mr A's borrowing in two separate lending chains.

Our adjudicator didn't uphold Mr A's complaint about loans 1 to 5. Mr A hasn't provided any further evidence or arguments for us to consider, so I won't be making any further findings on these loans because they no longer appear to be in dispute.

I've looked at the overall pattern of Satsuma's lending history with Mr A, 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 circumstances of Mr A's case, like the adjudicator, I think that this point was reached by loan 6. I say this because:

- At this point Satsuma ought to have realised Mr A was not managing to repay his loans sustainably. For this chain of borrowing, Mr A had taken out five loans in eight months. So, it should have realised it was more likely than not Mr A was having to borrow further to cover the hole repaying his previous loan was leaving in his finances and that Mr A's indebtedness was increasing unsustainably. I think this was shown by the fact loan 6 remains outstanding.
- Mr A's first loan in this chain (so loan 2) was for £450 and his sixth one was for £2,000. By now Satsuma ought to have realised that it was unlikely that Mr A was borrowing to meet a temporary shortfall in his income but more to meet an ongoing need.

I think that Mr A lost out because Satsuma continued to provide borrowing at loan 6 because:

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

So, I'm upholding Mr A's complaint about loan 6.

Putting things right – what Provident Personal Credit Limited needs to do

If Satsuma has sold the outstanding debt Satsuma should buy it back if Satsuma is able to do so and then take the following steps. If Satsuma can't buy the debt back, then Satsuma should liaise with the new debt owner to achieve the results outlined below.

A) Satsuma should add together the total of the repayments made by Mr A towards interest, fees and charges on loan 6, not including anything Satsuma has already refunded.

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

C) Satsuma should remove all interest, fees and charges from the balance on the upheld outstanding loans, and treat any repayments made by Mr A as though they had been repayments of the principal on the outstanding loan. If this results in Mr A 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 the outstanding loan. If this results in a surplus, then the surplus should be paid to Mr A. However, if there is still an outstanding balance then Satsuma should try to agree an affordable repayment plan with Mr A. Satsuma shouldn’t pursue outstanding balances made up of principal Satsuma has already written-off.

E) The overall pattern of Mr A’s borrowing for loan 6 means any information recorded about it is adverse, so Satsuma should remove this loan entirely from Mr A’s credit file. Satsuma does not have to remove the outstanding loans from Mr A’s credit file until this has been repaid, but Satsuma should still remove any adverse information recorded about this loan.

† HM Revenue & Customs requires Provident Personal Credit Limited to take off tax from this interest. Provident Personal Credit Limited must give Mr A 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 partially upholding Mr A’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 Mr A to accept or reject my decision before 23 July 2020.

Claire Marchant-Williams
Ombudsman