The complaint

Mr I says Provident Personal Credit Limited, trading as Satsuma ("Satsuma"), irresponsibly lent to him. Mr I has said Satsuma didn't carry out sufficient credit checks. He was already struggling to keep up with his then current outgoings and he suffered because of the lending.

What happened

This complaint is about two short-term loans Satsuma provided to Mr I between December 2015 and December 2017. Mr I's borrowing history is as follows:

Loan	Date Taken	Date Repaid	Instalments	Amount	Highest Monthly Repayment
1	11/12/2015	15/01/2016	47 (weekly)	£500.00	£105.85
Break					
2	27/02/2017	28/07/2017	5	£650.00	£228.80
3	11/12/2017	26/03/2018	3	£200.00	£98.40

Our adjudicator didn't uphold Mr I'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 Mr I the loans.

Mr I didn't agree. He said he was a low income at the time and couldn't afford the lending. He says Satsuma took advantage of his dire circumstances.

Our adjudicator further explained how and what we assess when considering this type of complaint and that the interest charges were within the regulator's limits at that time. Mr I asked for his complaint to be reconsidered.

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 I 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 I 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 I's complaint. After doing so, I've decided not to uphold the complaint. I'll explain why.

I should first say that I agree there were two chains of lending. There was a break of 13 months between loans one and two. I think this was a sufficient enough amount of time for Satsuma to have reasonably concluded that Mr I had overcome whatever the financial circumstances were that caused him to take this type of short-term lending in the first instance. A break in the chain of lending, in effect, starts the 'clock ticking' again on what we would consider to be proportionate checks a business should carry out when considering the length of the borrowing relationship with the consumer.

Satsuma has told this service about the checks it carried out before approving the loans. This included information about Mr I's income and expenditure to establish whether the loans were affordable for him. It also included a credit risk assessment and fraud and anti-money laundering checks.

For the first loan Mr I’s income was recorded as being £1,516.66 per month. His expenditure was £100 a month to which Satsuma added a safeguard buffer amount of £458.82 per month. So, this would leave Mr I with a disposable monthly income of £851.99 after taking account of the monthly loan repayment. On this basis, I don’t think the loan looks unaffordable on a pounds and pence basis.

For loan two, Mr I’s monthly income was £1,299.99 and expenditure as being £400. Again, Satsuma added a buffer of £154.33 which after taking account of the loan repayment would leave Mr I with a disposable income each month of £416.86. So again, I think the loan looks affordable.

And for loan three, Mr I’s income was £1,700, expenditure £500 to which Satsuma added a £602.90. After taking account of the monthly loan repayment this left Mr I with £499.50 per monthly. So, I think all of the lending looked affordable 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. And

I don’t think there was anything in the information that Mr I provided to Satsuma which would have caused it to be concerned that he was having problems managing his finances.

It’s possible that Mr I’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 I’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. But Satsuma has given us a copy of Mr I’s credit report it obtained at the time of the lending and there’s no evidence of bankruptcy, county court judgments or other poor credit reports that would have caused it to look further into Mr I’s financial situation.

Satsuma could only make a decision based on the information it had available at the time. That information – and the fact the loans were at the beginning of the lending relationship – I don’t think indicated there was a greater risk of the loans being unaffordable or unsustainable for Mr I.

In these circumstances, I don’t think Satsuma needed to take further steps to verify the information provided – such as asking Mr I 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 that was provided to, and obtained by, Satsuma before it lent to Mr I. And there isn’t anything in this information that may have led Satsuma to conclude that it should decline Mr I’s applications for the loans. And there isn’t anything to have prompted it to ask for more information about Mr I. So, I don’t think Satsuma was wrong to have provided these loans, based sold on the information it had.

So overall, in these circumstances, I think the assessment Satsuma did for these loans was proportionate. And I think its decision to lend to Mr I wasn’t unreasonable. I appreciate my conclusion to Mr I’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 I’s complaint

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr I to accept or reject my decision before 5August2020.

Catherine Langley
Ombudsman