

The complaint

Miss W says Provident Personal Credit Limited trading as 'Satsuma' irresponsibly lent to her.

What happened

This complaint is about nine loans Satsuma provided to Miss W between May 2015 and January 2019. Miss W's borrowing history is set out in the table below as follows:

Loan	Date Taken	Date Repaid	Term of Loan	Amount	Highest Repayment
1	07/05/2015	21/11/2015	6 months	£100	£28.33
2	25/11/2015	23/03/2016	6 months	£200	£57.50
3	09/04/2016	23/01/2017	52 weeks	£250	£41.47
4	26/07/2017	20/09/2017	12 months	£500	£83.00
5	02/10/2017	11/07/2018	12 months	£250	£41.50
6	21/08/2018	21/09/2018	12 months	£750	£124.50
7	15/10/2018	23/11/2018	12 months	£300	£49.80
8	23/11/2018	outstanding	12 months	£700	£116.20
9	15/01/2019	outstanding	12 months	£120	£136.12

Miss W complained that Satsuma did not perform adequate credit and affordability checks before it lent to her. Satsuma's irresponsible lending meant she had to borrow further to make repayments and was trapped in a debt spiral - getting herself into further debt and suffering financial hardship as a result.

In its final response, Satsuma told Miss W that it was unable to uphold her complaint. It explained that it had carried out a series of checks, including a credit-file search and had assessed her monthly income and expenditure details. It said it only lent where it was satisfied that Miss W was in receipt of sufficient income to cover the loan repayments, plus existing commitments and still had some disposable income to cover any additional expenses. It says this is illustrated by the fact that Miss W had eight other applications declined because at the time of the application it did not think Miss W could afford the repayments. Based on the information it received Satsuma said it was confident it had done everything that could be reasonably expected to ensure it was responsible to lend and that the loans would be affordable for Miss W.

Our adjudicator said she couldn't say it was unfair for Satsuma to provide loans 1-4 but she said that loans 5 -9 shouldn't have been provided to Miss W. By loan 5 Miss W's pattern of borrowing suggested she'd become persistently reliant on short-term lending.

Satsuma did not respond and as the parties have not reached agreement following the adjudicator's view the complaint was passed to me to make 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 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 Miss W 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 Miss W could sustainably repay her 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 Miss W's complaint. I agree with the adjudicator that loans 5 - 9 shouldn't have been given. I will explain why.

As our adjudicator explained, early on in the relationship I think Satsuma had done enough. I think its checks were proportionate and from the information about Miss W's income and her expenditure there's nothing from the information which makes me think that Satsuma would have been alerted to the possibility the loans were unaffordable.

So, I can't say it was unfair for Satsuma to give Miss W loans 1-4.

I've also looked at the overall pattern of Satsuma's lending history with Miss W, 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.

There was a gap of around six months between loans 3 and 4. But Satsuma had declined around 3 loan applications in this break, so I don't think this constituted a new chain of lending.

Given the particular circumstances of Miss W's case, I think that this point was reached by loan 5. I say this because:

- At this point Satsuma ought to have realised Miss W was not managing to repay her loans sustainably. Miss W had taken out 5 loans in over 28 months and Miss W had been indebted to Satsuma for all that time save for a few small gaps in between. Miss W had by now been borrowing for over two years. So, Satsuma ought to have realised it was more likely than not Miss W was having to borrow further to cover the hole repaying her previous loan was leaving in her finances and that Miss W's indebtedness was increasing unsustainably.
- Miss W's first loan was for £100.00 and loan 5 was for £250.00. And loan six was for £750.00. So, it doesn't seem likely that Miss W's need for cash was reducing which also points to her having a longer-term need for funds. So, at this point Satsuma ought to have known that Miss W was not likely borrowing to meet a temporary shortfall in her income but to meet an ongoing need.
- Miss W wasn't making any real inroads to the amount she owed Satsuma. Loan 9 was taken out almost four years after Miss W's first. And it was for more than Miss W's first loan. Miss W still had loan 8 outstanding when she took out loan 9 which was nearly seven times Miss W's first loan. Miss W had paid large amounts of interest to, in effect, service a debt to Satsuma over an extended period.

I think that Miss W lost out because Satsuma continued to provide borrowing from loan 5 onwards because:

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

So I'm upholding the complaint about loan 5 onwards and Satsuma should put things right.

putting things right – what Satsuma needs to do

Satsuma shouldn't have given Miss W loan 5 -9.

I understand that loan 8 and 9 are outstanding. If that is the case and Satsuma has sold this outstanding debt, it must buy it back and then take the following steps. If it is unable to buy back this debt, it must liaise with the new debt owner to achieve the results set out below:

- a) Satsuma must remove all interest, fees and charges from the balance on loan 5-9 and treat any repayments made by Miss W as though they had been repayments of the principal on loan 5-9. If this results in Miss W having made overpayments, Satsuma should refund those overpayments with 8% simple interest* calculated from the date the overpayments would have arisen to the date the complaint is settled. It must then refund the amounts set out in paragraphs (a) and (b) and then move to step (e);
- b) If however, after carrying out the above, there is still an outstanding balance, Satsuma must agree an affordable repayment plan with Miss W. It must not pursue an outstanding balance of principal it has already written off.
- c) The overall pattern of borrowing for loan 5 onwards means that any information recorded about them is adverse. Satsuma must remove these loans entirely from Miss W's credit file. It does not have to remove loan 8 and 9 until they have been repaid, but it must still remove any adverse information recorded about them.

*HM Revenue & Customs requires Satsuma to deduct tax from this interest. It must give Miss W a certificate showing how much tax has been deducted, if she asks for one.

My final decision

For the reasons given above, I'm partially upholding Miss W's complaint. Provident Personal Credit Limited should pay Miss W compensation as set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss W to accept or reject my decision before 20 October 2020.

Nicola Woolf
Ombudsman