

The complaint

Mr J complains that Provident Personal Credit Limited, trading as Satsuma Loans, lent to him in an irresponsible manner.

What happened

In March 2018, Mr J took out a loan of £300 with Satsuma. The loan was repayable over six months and the monthly repayments were around £95. Mr J didn't repay the loan.

Mr J says that Satsuma didn't verify his income and expenditure. He says that he referred to his gross, rather than net, income by mistake. Mr J says that he struggled with gambling and that his current account was constantly overdrawn. He says that his financial difficulties caused his health to suffer. Mr J says that he's now agreed a debt management plan. He wants a refund of all interest and charges.

One of our adjudicators looked at what had happened. She didn't think that Satsuma had treated Mr J unfairly. Mr J didn't agree and asked that his complaint be referred to an ombudsman, so it was passed to me.

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 J 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 customer'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.

Satsuma was required to establish whether Mr J could repay his loan sustainably – not just whether the loan repayments 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 the repayments. But it doesn't automatically follow this is the case. This is because the Consumer Credit Sourcebook ("CONC") defines 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 the arguments, evidence and information provided in this context and what this all means for Mr J's complaint.

When Mr J applied for the loan, he told Satsuma that his monthly income was £2,500 and his monthly expenditure was £750. Satsuma revised Mr J's monthly expenditure upwards and calculated that it was just under £2,000 in total, which left him with monthly disposable income of over £500. So, it proceeded on the basis that Mr J could afford the monthly repayment of around £95. I think that was a reasonable conclusion.

Mr J refers to giving details of his gross, rather than net income by mistake. I think that Satsuma was entitled to rely on what Mr J said about his income. It's unfortunate that Mr J overstated his income by mistake, but I don't think that Satsuma is responsible for that.

Satsuma carried out credit checks before lending to Mr J. The results of a credit check by a prospective lender are not in the same detail as Mr J can see from his own credit report. There was nothing in Satsuma's credit check results that should have stopped it from lending to Mr J.

Based on what I've seen and given the repayment amounts, what was apparent about Mr J's circumstances at the time and bearing in mind this was Mr J's only loan with Satsuma, I don't think it would've been proportionate for Satsuma to ask Mr J for the amount of information needed to show the lending was unsustainable. There wasn't anything in the information Mr J provided or the information Satsuma should've been aware of, which meant it would've been proportionate for it to start verifying what Mr J said. So, Satsuma wouldn't have been aware of Mr J's gambling or overdraft.

I'm sorry to disappoint Mr J but there are no grounds to uphold his complaint.

My final decision

For the reasons I've explained, my final decision is that I don't uphold Mr J's complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 20 August 2020.

Louise Povey
Ombudsman