DRN-2018518

The complaint

Mr B says Provident Personal Credit Limited, trading as Satsuma ("Satsuma"), irresponsibly lent to him. Mr B has said insufficient affordability checks were carried out. If sufficient checks had been carried out Satsuma would have seen Mr B had short-term loans with other credit providers and that he was dependent on this type of lending.

What happened

This complaint is about four short-term loans Satsuma provided to Mr B between December 2018 and July 2019. Mr B's borrowing history is as follows:

Loan	Date Taken	Date Repaid	Instalments	Amount	Highest Combined Repayment
1	01/12/2018	28/06/2019	6 months	£500.00	£158.00
2	29/01/2019	29/07/2019	6 months	£300.00	£252.80
3	28/03/2019	Outstanding	47 weeks	£1,100.00	£485.65
4	29/07/2019	Outstanding	3 months	£600.00	£528.05

Our adjudicator partially upheld Mr B's complaint. They didn't think loans three and four should have been given as the repayment for those loans represented a significant proportion of Mr B's monthly income. They didn't think Mr B could sustainably meet his repayments.

Satsuma responded directly to Mr B and made an offer in-line with the adjudicator's assessment. As Mr B had outstanding balances on loans three and four the redress offered would be offset against that and nothing would be due to Mr B.

Mr B rejected the offer and asked for an ombudsman's decision. As the complaint remains unresolved, it has been 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.

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 B 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 Mr B 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.

Mr B rejected the offer made by Satsuma. That offer was in-line with the adjudicator's recommendation. Mr B didn't comment on why he was rejecting the offer, only asking for an ombudsman's decision.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Mr B's complaint. After doing so, I've decided to uphold the complaint in part. I'll explain why.

Satsuma has shown this service the checks it carried out before approving any of the borrowing. And it has told us that when taking into account a consumer's declared expenditure, it would add a safeguard buffer amount as a reflection of its own internal models for similar customers. It also carried out a credit search.

Satsuma asked Mr B about his income and expenditure. Mr B had a monthly income of between £1,400 for all four loans. Satsuma also checked Mr B''s normal monthly living costs. Mr B declared these to be £385 for loan one and £188 for loans two to four. Satsuma added its own safeguard buffers to those living expenses.

On this basis, I don't think the loan repayments look unaffordable for loans one and two on a pounds and pence basis based on the information Mr B had declared to Satsuma.

For Mr B's first two loans there wasn't anything in the information that Mrs M provided which would have given Satsuma cause for concern, so I think it was reasonable of Satsuma to have relied upon what Mr B had declared. I think these factors had an impact on what level of checks would have been appropriate for Satsuma to have carried out. Given these, I think the checks Satsuma did before lending the loans one and two went far enough and the checks it carried out showed the loans were affordable. So, I wouldn't have expected for Satsuma at this stage to have undertaken more in-depth checks.

But for loans three and four the combined monthly repayments represented a significant proportion of Mr B's income. When Mr B applied for loan three – which was for more than double the amount of his previous loans – loans one and two were still running and respectively had a further three and four months to run. When loan three was taken the amount Mr B would have to repay on a monthly basis had risen to £485.65, much higher than any earlier repayments he had had to make. And this continued to rise to £528.05 when he took loan four.

I also note that loan four was taken the same day that loan two was repaid, and it was for double the amount. This suggests Mr B may have used some of the amount borrowed at loan four to part repay loan two which further indicates he was struggling financially. All of which suggests that the lending was unaffordable for Mr B and was becoming unsustainable.

So, like the adjudicator, I'm also upholding the complaint about loans three and four and Satsuma should put things right. Satsuma has already offered to do this, so it is now for Mr B to decide whether to accept that offer.

My final decision

For the reasons given above, I'm partially upholding Mr B's complaint. Provident Personal Credit Limited has already made an offer in-line with our recommendation so I won't be asking it to do anything more.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr B to accept or reject my decision before 2 October 2020.

Catherine Langley
Ombudsman