

The complaint

Mr P says Provident Personal Credit Limited (trading as Satsuma) lent to him irresponsibly.

What happened

I sent both parties a copy of my provisional decision on 2 July 2020. In it I explained why I intended to partially uphold Mr P's complaint. I also set out what I thought Satsuma needed to do to put things right. I've set out the main parts of my provisional decision below and this forms part of this final decision.

"Mr P had two loans with Provident. Loan 1, for £500, had a contractual term of six months and monthly repayments of £158. Loan 2, for £1,200, had a contractual term of 12 months and monthly repayments of £199.20. The loans commenced in July and September 2018. An adjudicator considered Mr P's complaint but didn't think it should be upheld. Mr P didn't agree, so his complaint was passed to me to decide.

What I've provisionally 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 P 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.

I think that it is important for me to start by saying that Satsuma was required to establish whether Mr P 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.

Before lending to Mr P, Satsuma asked him some questions about his income and expenditure. For loan 1, Mr P said his monthly income was £1,260.99 and his monthly expenditure included £480 for housing costs, £100 for financial commitments and £400 for 'other' expenditure - leaving him with £280.99 a month to make the £158 repayments to Satsuma. Satsuma used the [figures] provided by Mr P, without making any adjustments, and decided that the loan was affordable for him. On balance, I don't think that was an unfair or unreasonable decision.

For loan 2, Mr P provided different information. He said his monthly income was £1,347 and that his monthly expenditure now included only £60 for housing costs, £165 for financial commitments and £400 for 'other' expenditure. This time Satsuma did make some

adjustments, adding £45.21 to the financial commitments and deciding upon a disposable income figure of £676.69 per month.

I don't think Satsuma acted fairly or reasonably by accepting this information, without asking further questions. In particular, I think Satsuma ought to have questioned whether, in the space of less than two months, Mr P's housing costs would really have fallen from £480 to £60 per month.

What's notable here is that Mr P still had loan 1, with repayments of £158 per month to make alongside the repayments of £199.20 for loan 2 - a total of £357.20. Just two months earlier, Satsuma had accepted that Mr P had disposable income of £280.99 per month - which wouldn't be enough to make the combined repayments on loan 1 and 2.

I've also noted that in August 2018 Mr P spoke to Satsuma about a missed payment on loan 1. The notes say this missed payment was due to the lack of available funds. This conversation took place only shortly before loan 2 was approved – casting doubt on whether this additional lending was actually affordable.

I think there was enough here to prompt Satsuma to ask Mr P further questions about his circumstances. Had it asked those questions, I think it's likely it would've discovered the expenditure information (particularly in relation to housing costs) that Mr P had provided for loan 1 was a better reflection of his true expenditure than the information [provided] for loan 2. And on that basis, loan 2 would not have been sustainably affordable for Mr P, particularly when combined with the repayments for loan 1.”

For the reasons explained in my provisional decision, as quoted above, I said I planned to uphold the complaint about the second loan.

I asked both Mr P and Satsuma to let me know if they had anything to add. Mr P accepted the provisional decision. Satsuma didn't respond.

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.

As Mr P accepted my provisional decision and as Satsuma didn't respond, I see no reason to depart from my provisional findings. So my final decision is the same as my provisional decision, for the same reasons. I'm therefore upholding Mr P's complaint in respect of loan 2 and Satsuma must put things right as set out below.

I understand it's likely some (perhaps most) of the £1,200 Mr P originally borrowed for loan 2 may still be outstanding. I remind Satsuma of its duty to treat Mr P positively and sympathetically in respect of the outstanding balance.

Putting things right

Satsuma should remove all interest and charges applied to loan 2 from the outset and treat all payments made to date as if they were payments made towards the principal. In other words, Satsuma should make sure the most Mr P repays towards loan 2 is the principal amount borrowed.

Satsuma should also remove any adverse information it has recorded about loan 2 - but it doesn't have to do this until the principal is repaid.

My final decision

For the reasons given above, I uphold Mr P's complaint in part. Provident Personal Credit Limited must put things right by taking the steps set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr P to accept or reject my decision before 28 August 2020.

Matthew Bradford
Ombudsman