

The complaint

Mrs C complains that Provident Personal Credit Limited, trading as Satsuma, lent to her irresponsibly.

What happened

The subject of this complaint is the two loans Mrs C took with Satsuma in 2019. She had applied for, and been rejected, for two loans in 2014 and 2016, but these were long enough ago that they are not relevant to this complaint.

Loan 1 was for £400 on 29 March 2019, repayable over six months at about £126 each month commencing 23 May 2019. Loan 2 was for £500 on 5 June 2019 repayable over six months at about £158 each month and the first instalment was due 23 July 2019.

Mrs C paid the first instalment on Loan 1 and missed the second instalment. This meant that on the 23 July 2019 Mrs C was facing repayments of £126 x 2 on Loan 1 and the first instalment on Loan 2. These added up to £404. Mrs C complained to Satsuma on 2 July 2019 and received its final response letter (FRL) dated 25 July 2019. Mrs C brought her complaint to this service on 29 July 2019.

After that Mrs C asked for a repayment schedule and Satsuma agreed to 790 monthly repayments of £1 each starting 23 October 2019 for Loan 2. This translates into approximately 66 years to repay the outstanding sums, with her credit file registering that debt and regulatory letters needing to be sent to her for all that time.

When Satsuma sent to us its submissions in October 2019, it offered to write off the interest of £448.00 applied to Loan 2 leaving an outstanding capital balance of £342.00. Satsuma also offered to remove any adverse data shared on this agreement once the remaining capital balance had been repaid.

On 25 November 2019 Mrs C received a default letter in relation to Loan 1, and a demand for full instalment amounts to be paid. She wrote to Satsuma to say that she needed a repayment plan on that loan as well at £1 a month to match the other repayment plan. She had already informed Satsuma of ill health and in this email she explained that she had lost her job in December 2019. She was going to apply for benefits.

I do not know if that second repayment plan was set up, but I have seen an up-to-date statement of that account which shows that Mrs C has paid towards Loan 1 up to May 2020 and sometimes more than £1.

One of our adjudicators looked at the complaint and thought that Satsuma had not done anything wrong by approving the loans and yet, at the same time, put the offer in relation to Loan 2 to Mrs C. This did not result in a resolution of the complaint and it was passed to me for a decision.

I issued a provisional decision on 29 June 2020 and my provisional findings are set out below. Since then, both Satsuma and Mrs C have accepted my provisional 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 have set out our general approach to complaints about short-term and high cost lending - including all the relevant rules, guidance and good industry practice - on our website.

Both Mrs C and Satsuma have accepted the provisional decision findings and outcome and so I see no reason to depart from those earlier findings which are set out here and form part of this final decision.

My provisional findings dated 29 June 2020

Satsuma needed to take reasonable steps to ensure that it did not lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Mrs C 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: where a customer's income is particularly low; where the repayments are particularly high; and/or where the frequency of the loans and the length of time over which a customer has been given loans need to be looked at: repeated refinancing could 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 Mrs C could sustainably repay her loans – not just whether the loan payments were affordable on a strict pounds and pence calculation. 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 Consumer Credit Sourcebook ("CONC") defines 'sustainable' as being the ability to repay without undue difficulties. In particular the customer should be able to make repayments on time, while meeting other reasonable commitments, and 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 will not be able to make their repayments sustainably if they need to borrow further in order to do that.

I have carefully considered all the arguments, evidence and information provided in this context and what this all means for Mrs C's complaint. I am issuing a provisional decision which is that I plan to uphold Loan 2 and that Satsuma needs to put things right for her. The effect of this uphold will not substantially alter the practical outcome for Mrs C as Satsuma has already agreed to put things right for her in relation to Loan 2.

I have several reasons for coming to this provisional decision. Loan 2 overlapped with Loan 1 and so the indebtedness for Mrs C was going to be increased, both in relation to length of time in debt and amounts repayable. Satsuma's records show that 'An additional £331.41 of safe guards have been applied to the customers expenditure to reflect electronic information gathered from the Credit Bureau and based on internal models'. This demonstrates to me that Satsuma had seen her other debts and felt it had to add in the 'safeguard' sum of over £331. On its own, its not likely that this would be enough to prompt additional enquires but there are other aspects which, all together, do lead me to think that Satsuma ought to have made some.

Mrs C has sent us a payslip for July 2019 and I can see that her basic pay was about £1,038 each month. Her P60 for the tax year 18-19 shows she earned about £15,000 for that year. Additional income was usually due to her doing extra shifts or particular types of additional work. Satsuma has

said that it checked her declared income of £1,600 (after tax) each month and that it was satisfied - but I cannot see how these facts match up. So it seems to me that this Loan 2 was likely unaffordable.

Another element, is that in between taking Loan 1 and applying for Loan 2, Mrs C had a County Court Judgment against her. And I have looked at the credit bureau results carried out by Satsuma before Loan 2 and I can see from that it states:

'Outcome Summary - Decline' and 'Months since CCJ = 2 agreement outside Lending policy'.

Account notes show that it needed to carry out some manual checks before approving the loan.

As I have pointed out earlier, Satsuma has conceded on Loan 2 and so I do not think that I need to go into too much more detail. I am planning to uphold the complaint for Loan 2.

The repayment plan.

As I am planning to uphold Loan 2, then I have considered the particular circumstances surrounding Mrs C's employment and her current situation, her health, her likelihood of returning to work plus her arrears in several priority bills including her rent. These are a concern and Mrs C has sent in a lot of evidence about all these factors, some of which I am not referring to for confidentiality.

The plan for her to repay Loan 2 over 66 years was not a realistic prospect and even with the new figures of around £350 I consider it to be the same as this translates into 29 years. It would mean that for each of those months over all of those years Mrs C will be in danger of receiving a default letter or for debt collection agents to be instructed. It's too much of a burden for an extremely long time, and I am, in these particular circumstances, planning to direct that Satsuma writes off the capital sum part of the debt for Loan 2 as well as the interest which it has offered to do already. The redress section below reflects this.

Putting things right

Satsuma should do as follows:

- refund any interest and charges already paid by Mrs C in respect Loan 2; and
- if relevant, apply 8% simple interest per year to any interest and charges refunded from the date they were paid to the date of settlement*;
- remove all unpaid fees and charges from Loan 2;
- write off the capital sum for Loan 2;
- remove any adverse payment information about the loan from Mrs C's credit file;

As I know that Mrs C still owes money on Loan 1, then Satsuma ought to rework the account to ensure that any payments on Loan 2 to date, are put towards the debt owed on Loan 1.

*HM Revenue & Customs requires Satsuma to take off tax from this interest and it must give Mrs C a certificate showing how much tax it's taken off if she asks for one.

My final decision

My final decision is that I uphold Mrs C's complaint in part and direct that Provident Personal Credit Limited, trading as Satsuma Loans, does as I have set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or reject my decision before 2 September 2020.

Rachael Williams
Ombudsman

