DRN-2082996

The complaint

Mrs L has complained about a loan granted to her by Provident Personal Credit Limited trading as Satsuma ("Satsuma" or "the lender"). Mrs L says the loan wasn't affordable for her and Satsuma didn't review her circumstances before lending to her.

What happened

Satsuma agreed a loan of £700 for Mrs L on 9 October 2018. It was to be repaid with 12 monthly instalments of about £116. Mrs L made two repayments before getting into difficulty. I understand the loan was passed to a third party debt collection agency in June 2019.

Our adjudicator didn't uphold Mrs L's complaint and she asked for an ombudsman to review it and come to a final decision on the matter. So the complaint came to me, as an ombudsman, to resolve.

I issued my provisional decision on 13 July 2020, explaining why I planned to uphold Mrs L's complaint. Mrs L agreed with my provisional decision but Satsuma didn't respond to it.

In my provisional decision, I said that I understood Mrs L took out home credit loans from Provident Personal Credit Limited in 2015 and 2016. She was unable to repay everything she borrowed and made a complaint in late 2017, in which she told it about her financial difficulties including that she had lost her home. Provident Personal Credit Limited upheld her complaint in part. I am not making any finding about those loans in my decision as they have already been dealt with. However, I have borne this history in mind when making my decision about the loan agreed in 2018.

This is now my final decision on the matter. If Mrs L accepts this it will be legally binding on both parties.

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 before, I have also taken into account the law, any relevant regulatory rules and good industry practice at the time. As neither party has provided any new information for me to consider, I see no need to depart from my provisional conclusions but for completeness I will set them out here again.

The Financial Conduct Authority was the regulator when Mrs L took out her loan. The relevant rules and guidance set out in its Consumer Credit Sourcebook said that Satsuma needed to check that Mrs L could afford to meet her repayments in a sustainable manner. This meant Mrs L being able to meet her repayments out of her normal income without having to go without or borrow further.

The regulations weren't prescriptive about what checks Satsuma needed to carry out in order to reasonably assess whether or not Mrs L would be able to meet her repayments sustainably. But the regulations said that such checks needed to be proportionate. This suggests that the same checks might not be the appropriate thing to do for all consumers, or for the same consumer in all circumstances.

In general, I'd expect a lender to require more assurance the greater the potential risk to the consumer of not being able to repay the credit in a sustainable way. So, for example, I'd expect a lender to seek more assurance by carrying out more detailed checks

- 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).

Satsuma says it asked Mrs L for information about her income and expenses when she applied for the loan. The lender recorded her monthly income as £1,400 and her monthly expenses as £600, which included £150 of existing credit repayments. It said an additional £500 of safeguards were applied to the total expenditure figure Mrs L supplied to reflect electronic information gathered from a credit reference agency and based on its own internal models. This included a further £350 on repaying existing credit. Satsuma estimated that Mrs L had a disposable income of about £300 each month to meet her loan repayments.

I don't think it was fair of Satsuma to agree this loan for Mrs L without further checks, for instance verifying what she'd said about her income and expenditure. Mrs L would have to meet her loan repayments for 12 months and its own checks had revealed she spent more than double what she'd declared on repaying existing credit each month, over a third of her income. Furthermore, she had not been able to repay her home credit loans in 2017 and had explained why. I think it's likely that Satsuma knew about Mrs L's previous financial difficulty and that she had been in the vulnerable position of losing her home.

Mrs L has provided a copy of her credit file from 24 August 2018 and I can see from this that she was managing over £8,000 of active debt, borrowing from a number of other short term and high cost lenders and making repayments via a third party debt collection agency around that time. Her file shows almost £12,000 of defaulted debt and two active county court judgements, the latest of which had been awarded in March 2018 for over £2,500.

I think it's likely Satsuma would have found out that Mrs L would not have been able to sustainably repay further credit, had it gathered a better picture of her finances before lending to her. So, I think Satsuma was irresponsible to agree this loan for Mrs L and I am upholding her complaint.

Putting things right

As I've explained above, I find that Satsuma was irresponsible to have agreed a loan for Mrs L in October 2018.

This Service's approach to putting things right where we find a loan has been irresponsibly given is to require the lender to refund any interest and charges paid plus compensatory interest or, in the case of unpaid loans, to treat the repayments made as payments towards the capital borrowed. We generally leave it to the borrower to fully repay the capital amount, because they have had the benefit of this money.

However, in this case Satsuma should have foreseen that Mrs L would have difficulty meeting her repayments given her history of significant financial difficulty. So I think the fairest thing to do to resolve this complaint is for Satsuma to:

a) remove any interest and charges that form part of the outstanding balance on this loan; and

b) treat any payments Mrs L has made as payments towards the capital amount; and

c) write off the outstanding capital amount so that Mrs L no longer owes any money for this loan; and

d) remove any adverse information about the loan from Mrs L's credit file, once the account has been settled.

According to the account information the lender provided, it seems Mrs L hadn't fully repaid her loan and her debt was sold to a third party collection agency. Satsuma either needs to buy back this debt to achieve the above steps or work with the current debt owner to do so.

My final decision

As I've explained, I'm upholding Mrs L's complaint about by Provident Personal Credit Limited trading as Satsuma and require it to put things right for her as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs L to accept or reject my decision before 11 September 2020.

Michelle Boundy
Ombudsman