

The complaint

Miss A says Provident Personal Credit Limited trading at the time as 'Satsuma' irresponsibly lent to her.

What happened

In July 2020 I issued my provisional decision. In it I explained why I was intending to uphold this complaint about loan 2.

A copy of my provisional decision is set out below and forms part of my final decision:

'This complaint is about two loans Satsuma provided to Miss A between September 2017 and June 2018. Miss A's borrowing history is set out on the table below as follows:

Loan	Date Taken	Date Repaid	Instalments	Amount	Repayment
1	22/09/2017	27/12/2017	12	£700.00	£116.20
2	17/06/2018	-	12	£2,000.00	£332.00

The first loan was settled early.

In its final response to Miss A, Satsuma said it carried out a series of checks to ensure the lending was responsible. It said it checked Miss A's income and her expenditure including a credit file search. If this check resulted in a higher level of expenditure, it used a higher figure to ensure it didn't underestimate Miss A's outgoings. It said it only lent to Miss A if it was satisfied she could afford the loans it was giving - illustrated by the fact that three other loan applications were declined. It also said the fact that it had increased the outgoings suggested that the decision to lend was responsible and these loans were affordable for Miss A. It did however uphold other parts of Miss A's complaint about lack of responses to emails and other customer service issues. As a gesture of goodwill, it offered to reduce the balance outstanding on loan 2 by £100.

Our adjudicator didn't think Miss A's complaint should be upheld. He said there wasn't anything in the information provided about loan 1 which meant Satsuma should have started verifying what Miss A was saying. But he said for the later loan Satsuma should have taken steps to build a more detailed picture of her financial situation. He said however, he hadn't seen anything in the financial information provided which suggested Satsuma should have known Miss A wouldn't be able to make her repayment sustainably.

Miss A disagreed with this view. She explained that she thought the size of the second loan meant Satsuma ought to have carried out further checks. If it had done it would have seen her debt was much worse than when she took out her first loan and her bank statements showed gambling and a reliance on payday loans.

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 Miss A 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 Miss A could sustainably repay her 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.

I've carefully considered all of the arguments, evidence and information provided in this context and what this all means for Miss A's complaint. I'm intending to uphold Miss A's complaint about loan 2. I will explain why.

For loan 1, this was the first loan Satsuma had given to Miss A. I can see Miss A declared she had an income of £1,400 and outgoings of £780. This left Miss A with a disposable income of £503.80 after factoring in the loan repayment of £116.20.

Satsuma adjusted these figures based on its checks to better reflect Miss A's circumstances. It said the values used were that Miss A had an income of £1,398.91 and outgoings totalling £1,043.33. This would have left Miss A with a disposable income of £239.38 after accounting for the monthly repayment for loan 1 of £116.20.

So, for this loan I think its checks were proportionate and I think that Satsuma would have likely thought this loan was affordable. So, I don't intend to uphold the complaint about loan 1.

I have next gone on to consider loan 2. I have done this in the light of the following considerations: -

- I have looked at the amount of the loan.*
- I have also thought about the repayment amounts Miss A had to make over the term*

and the adjustments to the figures Satsuma made for the first and second loan.

I can see from the evidence that although Miss A did not take up her second loan until around just under six months after repaying her first loan, she had made other applications for loans to Satsuma. On 2 November 2017 an application was not taken up and another application was rejected on 13 November 2017. These applications were made while she was still repaying her first loan and this is something Satsuma would have known about when it gave Miss A loan 2. Given these circumstances and the time line I don't intend to find this was a new chain in the lending relationship.

Given the large amount of loan 2 and the amount of the repayments over the time period, I think Satsuma should have carried out further checks to verify what Miss A was saying.

Satsuma could've gone about doing this several ways. It could've asked for evidence of Miss A's income in the way of a wage slip or it could've obtained information about her outgoings via copies of bills. But, in this case, Miss A has provided a copy of a credit report which covers the period of the second loan. So, I don't think it is unreasonable to rely on the information I can see in this credit report.

From this report I can see that Miss A had numerous credit cards and other credit including unsecured loans, hire-purchase and a catalogue shopping account. The cost of the other ongoing loans were £144, a loan repaid the same day as Miss A took out loan 2 of £312, an HP agreement of £144, another unsecured loan of £159 and one of £219. I can also see that she had also had other short-term loans in a short time before she took out loan 2 with Satsuma. Miss A was consistently using high cost credit and had been for at least the previous 12 months. I think the cost of her outgoings meant this loan was unaffordable.

On top of this Miss A has also provided copies of her bank statements for the period of loan 2. This confirms that she was repaying other short-term loans. So, if Satsuma had done some further searches and investigated Miss A's financial position more thoroughly as I think it ought to have done, for the reasons I've explained, I think it would have seen that the repayment for this loan was unaffordable and unsustainable. I don't think Satsuma would have given Miss A her second loan.

So as things stand, I'm intending to uphold Miss A's complaint about loan 2.'

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 of the relevant rules, guidance and good industry practice - on our website.

Following my provisional decision and before making my final decision, I asked both parties to come back to me with anything further they wished me to consider.

Miss A confirmed she was happy with my decision. She didn't add any more information for me to consider. Satsuma didn't respond after being sent my provisional decision – so I see no reason to depart from the findings set out in my provisional decision.

So, I uphold Miss A's complaint about loan 2.

Putting things right – what Satsuma needs to do

As I explained in my provisional decision, it appears there is an outstanding balance in respect of loan 2. If that is the case and Satsuma sold the outstanding debts to a third party, it will need to buy it back if it can and then follow the steps set out below. If it cannot buy the debt back, it must liaise with the new debt owner to achieve the results outlined below:

a. Satsuma must remove all interest, fees and charges from the balance of loan 2, and treat any repayments made by Miss A as though they had been repayments of the principal on this loan. If this results in Miss A having made overpayments, then Satsuma must refund these overpayments with 8% simple interest* calculated and paid on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled.

b. However, if there is still an outstanding balance then Satsuma should try to agree an affordable repayment plan with Miss A. It must not pursue outstanding balances made up of principal it has already written-off.

c. Satsuma must remove any adverse information recorded on Miss A's credit file in relation to loan 2.

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

If Satsuma and Miss A do agree a repayment plan, I remind Satsuma of its obligation to treat Miss A fairly.

My final decision

For the reasons given, I uphold this complaint about loan 2. Provident Personal Credit Limited should put things right as set out in the putting things right section above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss A to accept or reject my decision before 7 October 2020.

Nicola Woolf
Ombudsman