

The complaint

Miss L complains that Provident Personal Credit Limited (trading as Satsuma) lent to her irresponsibly.

What happened

Miss L took out a total of five loans with Satsuma between July 2016 and April 2019.

Loan no.	Date borrowed	Date repaid	Amount	No. of instalments
1	03.07.16	21.10.16	£1,000	8
2	26.01.17	24.02.17	£1,150	12
Break in lending				
3	23.08.17	15.03.18	£280	9
4	02.08.18	26.03.19	£2,000	12
5	03.04.19	Unknown	£2,000	12

Miss L repaid the first two loans much earlier than they were scheduled to be repaid. There was then a break of around six months when she didn't have any loans outstanding with Satsuma. Miss L repaid loans 3 and 4 in full and, again, earlier than planned. But when she brought her complaint to us, a balance remained outstanding on the final loan.

In its response to Miss L's complaint, Satsuma said it upheld Miss L's complaint about loan 1. It said it had calculated a refund by adding up the interest she'd paid on that loan, and then adding interest at 8% per year to that. It had then used the refund to reduce the balance that was outstanding on loan 5. Miss L has more recently told us that she has now paid off the remaining balance on loan 5.

Our adjudicator thought that it was right that Miss L's complaint about loan 1 should be upheld. She said, in summary, that the information that Satsuma had about Miss L's regular monthly income and expenditure suggested that Miss L wouldn't be able to afford the highest monthly instalment on loan 1. But the adjudicator didn't think Satsuma had been wrong to make the remaining loans.

Miss L didn't agree with the adjudicator's view, so the complaint was passed to me.

my provisional findings

After considering all the evidence, I issued a provisional decision on this complaint to Miss L and to Satsuma on 4 August 2020. I summarise my findings:

- I explained that we've set our general approach to complaints about short-term lending - including all 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 meant that it should have carried out proportionate checks to make sure that Miss L 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 thought 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 a consumer. These factors include:
 - the lower a customer'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.
- It was important for me to start by saying that Satsuma was required to establish whether Miss L 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 didn't automatically follow this was the case. This was 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. It followed 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'd carefully considered all the arguments, evidence and information provided in this context and what this all meant for Miss L's complaint.
- I explained that as Satsuma had upheld Miss L's complaint regarding loan 1, and the refund it calculated was in line with our approach, I wouldn't consider that loan.
- Satsuma did some checks before it lent to Miss L. On each occasion it asked her for details of her income, and her normal expenditure. Satsuma then adjusted the information that Miss L gave it about her regular monthly income and expenditure by applying its own internal safeguards and buffers. And it checked her credit file before agreeing the loans. I'd seen a summary of the results of those checks and I didn't think they showed anything that should have caused additional concerns to Satsuma.

- As I'd mentioned earlier, each of Miss L's loans was repayable in instalments. So the amounts that Miss L needed to repay each time were smaller than if she'd taken a normal payday loan. But of course she was committing to make those repayments over a much longer period.
- When she applied for loan 2, after Satsuma's adjustments, Miss L would have been left with a disposable monthly income of around £325. The highest monthly repayment due on loan 2 was just over £190. Based on Satsuma's calculations, that would have left Miss L with only £135 per month to meet any one-off or unexpected expenditure. I'd borne in mind that Satsuma had told us it had applied a buffer of £65 per month to Miss L's declared expenditure. But even taking that into account, it wouldn't have taken a very large unexpected expense to leave Miss L over-stretched. What's more, Miss L was committing to make those payments every month for 12 months. And I thought this made it less likely that Miss L would be able to repay the loan sustainably, without having to borrow further.
- I acknowledged that Miss L had repaid loan 1 only a couple of months into an eight-month term. But that didn't necessarily imply that she repaid loan 1 sustainably. And in little over three months she was applying to borrow again, and the sum she was asking for was a little higher than the first loan had been. That, and the fact that Miss L was committing to repay loan 2 over an extended period meant I thought Satsuma should have gained as full a picture as possible of Miss L's financial position before agreeing to lend.
- I'd looked at Miss L's credit file to see what it was likely that proportionate checks would have shown Satsuma. I could see that Miss L had taken out at least ten short-term loans with other lenders in the last few months of 2016. It was true that it looked as if she may have repaid them by the time she applied for loan 2. But I thought that the picture Satsuma would have got from more thorough checks would have been of someone who had very recently been having significant problems managing their money. Adding to this the fact that the repayments would leave Miss L with a relatively small disposable income each month for 12 successive months meant that I didn't think Satsuma should have made loan 2.
- The length of the gap between Miss L repaying loan 2 and applying for loan 3 meant that I thought it was reasonable for Satsuma to treat her as a new borrower, and to base its checks accordingly.
- Loan 3 was for significantly less than Miss L's previous two loans. That said, she was, once again, committing to make monthly repayments over an extended period – in this case, nine months. But given the size of the monthly repayments, and the monthly income that Miss L had declared, I thought that the checks that Satsuma carried out before making loan 3 were proportionate. And I didn't think they showed anything which ought to have prompted Satsuma to conclude that Miss L might struggle to repay the loan sustainably. So I didn't think Satsuma was wrong to make the loan.
- I acknowledged that there was a gap of more than four months between Miss L repaying loan 3 and applying for loan 4. But I didn't think that was long enough for Satsuma to have reasonably concluded that it was likely that she'd overcome her previous difficulties. I'd also borne in mind that loan 4 marked a very significant step up from loan 3. In fact it was Miss L's largest loan to date and wasn't far short of twice as much as her previous largest loan. And she was committing to sustain repayments on it every month for twelve months.

- And this meant, again, that I thought Satsuma should have carried out a thorough review of Miss L's financial situation to check that there was nothing to indicate that Miss L might struggle to repay the loan sustainably.
- So once again, I'd looked at Miss L's credit report to see what I thought it was likely that Satsuma would have discovered if it had looked into Miss L's financial position in as much detail as I thought it should have done.
- Miss L's credit report showed that when she applied for loan 4, proportionate checks would have revealed that Miss L now had loans already open with at least six other short-term lenders. So I thought it should have been clear to Satsuma that Miss L's financial problems continued. And I didn't think that it should have agreed to make loan 4 or loan 5, which followed quickly after.
- This meant that I thought Satsuma should put things right by doing as set out below.

further submissions

Miss L has told us she's happy with my provisional decision. Satsuma hasn't commented on my provisional decision, and the time for doing so has now expired.

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.

Having done so, I can't see any reason to depart from the findings I set out in my provisional decision.

Putting things right

Satsuma had already compensated Miss L for loan 1 when she brought her complaint to us. But I don't think it should have agreed to make loans 2, 4 or 5 to Miss L. I understand that since I issued my provisional decision, Satsuma has paid some further redress to Miss L. But to be clear, if it hasn't already done so, Satsuma should:

- refund all interest and charges paid by Miss L on loans 2, 4 and 5;
- add simple interest at a rate of 8% per year to each of those amounts from the date they were paid to the date of settlement*; and
- remove all negative information about loans 2, 4 and 5 from Miss L's credit file.

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

Miss L has told us she's now paid off the remaining balance on loan 5. But if any balance remains outstanding, Satsuma may use the compensation that is due to Miss L to repay that outstanding amount. However, to be clear, any outstanding balance should be recalculated to remove any interest and charges, and to take account of any repayments Miss L has made on that loan as though they were applied against the principal sum borrowed.

My final decision

My decision is that I uphold this complaint. I require Provident Personal Credit Limited (trading as Satsuma) to put things right by doing as I've set out above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss L to accept or reject my decision before 16 October 2020.

Juliet Collins

Ombudsman