

The complaint

Miss S complains that Provident Personal Credit Limited (trading as Satsuma) was irresponsible to lend her money she couldn't afford to repay.

What happened

This complaint is about three loans Satsuma provided to Miss S.

Here's a table with more information about the loans:

Loan	Date taken	Date repaid	Instalments	Amount	Highest* repayment
1	12/05/2015	June 2017	52 weekly repayments	£300.00	£54.80
2	20/08/2017	outstanding	12 monthly repayments	£500.00	£83.00
3	30/01/2018	outstanding	12 monthly repayments	£650.00	£190.90

*including combined repayments due on overlapping loans

Miss S complained that Satsuma failed to check her finances sufficiently to make sure she would be in a position to pay back the loans.

Satsuma mainly says that before the loans were provided it carried out all proper checks and based on the information it gathered the lending was affordable for Miss S.

One of our adjudicator's looked at the complaint and issued a view, not upholding the complaint. Another adjudicator looked at the complaint again and reached a different opinion which was sent to all the parties.

Our adjudicator upheld the complaint in part. He felt she hadn't seen enough to say it was unfair for Satsuma to have provided loan 1 to Miss S but explained why he thought that loans 2 and 3 shouldn't have been lent.

And our adjudicator set out the steps he said Satsuma should take to put things right.

We haven't heard anything back from Satsuma and the complaint is still not settled – so it comes to me for a final 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'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 S 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.

Satsuma was required to establish whether Miss S 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 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 S's complaint.

Satsuma told us about the checks it did before lending. It asked Miss S to provide details of her income and to tell Satsuma what she normally spent each month. Satsuma also carried out some checks on Miss S's credit file.

I've seen a summary of the results of the checks Satsuma did and they don't show anything that I think should reasonably have made Satsuma think loan 1 wasn't affordable for Miss S. I appreciate that Miss S's circumstances might not have been reflected in the information Satsuma had. But, looked at overall, given the loan repayment amounts, what was apparent about Miss S's circumstances at the time and her borrowing history with the lender at that stage, I don't think it would've been proportionate for Satsuma to ask her for the amount of information that would've been needed to show the lending was unsustainable before agreeing the first loan.

As it seems that Miss S hasn't disagreed with the adjudicator's recommendation in relation to this loan, I don't think I need to say any more about it.

So I don't uphold Miss S's complaint about loan 1 – even though it turned out that she didn't make all the full contractual repayments she'd originally signed up to on time.

When she asked for loan 2, I'd expect Satsuma to have taken into account Miss S's repayment record on loan 1 alongside the other information it could see.

Satsuma gave Miss S loan 2 around two months after she finally repaid her first loan. This loan was for significantly more money (loan 2 was around two thirds bigger than loan 1).

And Satsuma was aware that it had taken around a year longer than originally agreed for Miss S to be able to afford to repay loan 1. I don't think there was anything in the information that Satsuma had gathered about Miss S that could've led it to think that she was now in a position to make monthly repayments of £83 on loan 2 when she had evidently found it hard to pay a much smaller monthly amount to clear loan 1 just a couple of months earlier.

Taking into account all this information, I think a reasonable lender ought to have realised that Miss S's payment record on loan 1 most likely indicated that she had money problems and she'd found it difficult to afford the repayments. Miss S has provided some bank statements which cover this period and I can see from these that she was in fact having money problems and was borrowing from many short term and high cost lenders.

I think that what Satsuma could see about Miss S's financial situation should reasonably have led Satsuma to the conclusion that the information she'd provided about her finances, which showed she had over £700 a month of disposable income, probably wasn't a true reflection of her underlying financial situation. To my mind, it's not likely that someone with that level of disposable income would have had the repayment problems Miss S did or that they would be likely to need to borrow again so soon after repaying previous borrowing.

So I don't think it was reasonable for Satsuma to conclude (even with the adjustments it made to the figures she'd given about her spending) that it was likely Miss S would be able to repay loan 2, or any subsequent loan, in a sustainable manner.

Satsuma should've realised that this loan, and further lending, was likely to be unaffordable for Miss S. So, overall, I'm upholding the complaint about loans 2 and 3.

Putting things right

If Satsuma sold the outstanding debts it should buy these back if able to do so and then take the following steps. Otherwise Satsuma should liaise with the new debt owner to achieve the results outlined below.

- A. Remove all interest, fees and charges from the balances on loans 2 and 3, and treat any repayments made by Miss S as though they had been repayments of the principal.
- B. If this results in Miss S having made overpayments then these should be paid back to Miss S with 8% simple interest* calculated on the overpayments, from the date the overpayments would have arisen, to the date the complaint is settled; or
- C. If (as seems more likely) there is still a relatively small capital balance left to pay, I invite Satsuma to consider writing this off given Miss S's financial situation. But if it is unwilling to do so and should Miss S fail to repay this through her IVA, then I remind Satsuma it should treat Miss S fairly and sympathetically and try to agree an affordable repayment plan with her giving her more time to pay if she needs this.
- D. Remove all adverse entries from Miss S's credit file for loans 2 and 3 once they are repaid – and ask the debt purchaser to do the same if Satsuma sold this loan on.

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

My final decision

I uphold Miss S's complaint about loans 2 and 3 and Provident Personal Credit Limited (trading as Satsuma) should put things right for Miss S as set out above.

I understand Miss S has been in an Individual Voluntary Arrangement (IVA). Her IVA supervisor has expressed an interest in any compensation Miss S might receive. Miss S and Provident Personal Credit Limited (trading as Satsuma) should bear in mind Miss S's obligations under that IVA in respect of any compensation she gets and make sure it is paid to the right person(s). A copy of this decision will be sent to her IVA supervisor.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss S to accept or reject my decision before 31 October 2020.

Susan Webb
Ombudsman