

The complaint

Mr K says Provident Personal Credit Limited (trading as Satsuma) was irresponsible to lend him money.

Mr K wants Satsuma to apologise and refund money to him.

What happened

Mr K took out four instalment loans with Satsuma between November 2014 and February 2016.

Mr K says that Satsuma lent him money that he couldn't afford to repay. And that even though he struggled with his repayments, Satsuma lent him more money. Mr K says Satsuma didn't tell him what would happen if he couldn't repay the loans.

When Mr K complained to this service Satsuma hadn't finished its investigation in to his complaint. After Mr K brought his complaint, Satsuma made an offer for loans three and four but not loans one and two.

The adjudicator didn't recommend that Mr K's complaint be upheld. As Satsuma had already offered to put things right for loans three and four, the adjudicator only considered loans one and two. He didn't think that it was unreasonable of Satsuma to agree loans one and two.

Mr K doesn't agree with the adjudicator's recommendation. Mr K doesn't consider that it's fair for Satsuma to uphold part of his complaint but still ask him to pay the outstanding balance on the loans.

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 Mr K 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 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 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's important for me to start by saying that Satsuma was required to establish whether Mr K could sustainably repay his 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 Mr K's complaint.

loans one and two

Satsuma has given us evidence that it asked Mr K for details of his income, housing costs, financial commitments and other outgoings before agreeing to lend each time. As well as this, Satsuma has told us that it included safeguards to reflect information gathered from credit searches.

Satsuma recorded Mr K's monthly income to be £1,700 for loan one and £1,400 for loan two against declared expenses of between £820 and £870.

Even though Mr K took out loan two on the day he repaid loan one, it was early on in his borrowing relationship with Satsuma. The checks that Satsuma carried out didn't reveal anything of concern so I wouldn't have expected Satsuma to try and independently verify the information Mr K gave about his finances.

Based on everything that Satsuma knew about Mr K, it appeared that he could afford to repay loans one and two. So, I don't think Satsuma was wrong to agree to lend to Mr K. This means that I don't require Satsuma to refund or write off any of the interest on loans one and two.

loans three and four

Satsuma upheld Mr K's complaint about loans three and four. It offered to refund the interest that Mr K paid on loan three and write off the unpaid interest on loan four. Satsuma also said it would amend Mr K's credit file. However, Mr K is unhappy that despite Satsuma upholding his complaint about these two loans, it still expects him to pay any outstanding balance.

I sympathise with Mr K, but he had the benefit of the money lent to him, so I don't consider it's fair to require Satsuma to write off any outstanding capital balance on loan four. I also consider it reasonable that Satsuma apply the compensation to any outstanding amounts due on the loans. I would however remind Satsuma of its obligation to treat Mr K fairly and reasonably in any settlement negotiations.

My final decision

My decision is that I don't uphold this complaint in the sense that I find the offer that Satsuma made is fair and reasonable. To put things right, Provident Personal Credit Limited (trading as Satsuma) should take the steps that it has agreed to do in line with its offer.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr K to accept or reject my decision before 22 December 2020.

Gemma Bowen
Ombudsman