

## The complaint

Mr F complains that Provident Personal Credit Limited trading as Satsuma Loans (Satsuma) didn't carry out adequate affordability checks before lending to him. He says the lending was irresponsible.

## What happened

Mr F took out 10 loans with Satsuma between February 2016 and April 2019. The loans were repayable over different terms ranging from 13 weeks to 12 months.

Loan	Date Taken	Date Repaid	Instalments	Amount
1	10 February 2016	18 March 2016	13 weeks	£180
2	18 November 2016	07 February 2017	13 weeks	£130
3	21 December 2016	08 April 2017	3 months	£320
4	08 March 2017	03 August 2017	7 months	£350
5	23 August 2017	01 December 2017	3 months	£350
6	21 November 2017	30 November 2017	3 months	£150
7	09 August 2018	07 March 2019	7 months	£350
8	11 October 2018	07 March 2019	6 months	£500
9	25 January 2019	07 March 2019	3 months	£140
10	01 April 2019	17 June 2020	12 months	£2,000

Mr F says that adequate affordability checks weren't carried out before the loans were provided.

Satsuma says that it carried out several checks before providing the loans to ensure they were affordable. In its final response dated March 2020, Satsuma said that a rebate would be provided in relation to the second loan and that this would be offset against the outstanding balance on the final loan. It didn't uphold Mr F's complaint regarding the other loans provided.

Mr F didn't accept Satsuma's outcome and referred his complaint to this service. He said that he took out loans shortly after the one Satsuma had upheld and these were for increased amounts. He says he was missing payments on loans, but Satsuma still provided him with larger amounts of credit. He said his credit file showed his financial situation and that Satsuma should have checked this.

Our adjudicator noted that there was a break in Mr F's lending between loans 1 and 2 of around eight months and so he considered loan 2 as the start of a second lending chain. He

then noted a further break in Mr F's borrowing between loans 6 and 7 and considered loan 7 as the start of a third lending chain. He didn't think he had seen enough to say that loans 1 to 5 or loans 7 to 10 shouldn't have been provided but he thought loan 6 shouldn't have been lent.

Regarding loan 6, our adjudicator said that at this time Mr F was showing signs that he was struggling to repay some of his previous loans having missed an instalment on loans 3 and 4 and two payments on loan 5. He thought this showed there was a significant risk that Mr F would have been unable to sustainably meet his repayments for loan 6 and so this loan shouldn't have been provided.

Satsuma accepted our adjudicator's view. Mr F didn't.

### **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 that Mr F 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 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.

I think that it is important for me to start by saying that Satsuma was required to establish whether Mr F 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 Consumer Credit Sourcebook ("CONC"), defines 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 F's complaint.

Mr F's first loan was taken out in February 2016 and was for £180. At the time his monthly income was recorded as £1,850. Given this was Mr F's first loan and considering the amount of the repayments compared to his recorded income, I find the checks carried out before this loan was provided were proportionate. These checks suggested the loan was affordable and so I do not find it unreasonable that this loan was provided.

There was then a gap of around eight months between Mr F repaying the first loan and taking out the second, therefore I find that loan 2 is the first loan of a new lending chain. Satsuma said in its final response to Mr F's complaint that it would refund the interest on this loan and that this would be offset against Mr F's outstanding balance. I understand this has happened.

Loan 3 was taken out before loan 2 had been repaid. Therefore, I have considered the total amount payable under the two loans. Having done so and having assessed this total repayment amount compared to Mr F's monthly income and considering this was the second loan in the lending chain, I find that the checks carried out were proportionate. As these checks didn't raise any concerns about the affordability of the loan I do not find it unreasonable this loan was provided.

Loan 4 was taken out while loan 3 was outstanding and then both these loans were repaid before loan 5. Loans 4 and 5 were both for £350. While I can see Mr F was developing a pattern of borrowing I do not find at this stage I can say this is something that would have required Satsuma to take further action. I find that having considered the repayments he needed to make under the loans compared to his income and noting these loans were still relatively early in the lending chain, I find the checks carried out were reasonable. These didn't raise concerns about the affordability and so I do not find I can say these loans shouldn't have been provided.

By loan 6, I agree with our adjudicator's comments that Mr F was beginning to show signs that he may be struggling to manage his money. He had missed the occasional payment on his previous loans, and I think concerns should have been raised about whether loan 6 was sustainably affordable. Our adjudicator recommended that the interest and charges be refunded on this loan and any adverse information regarding it be removed from Mr F's credit file. Satsuma agreed to this recommendation and based on the comments above, I find this reasonable.

There was then a break in Mr F's borrowing. He repaid loan in November 2017 and then didn't take out another loan with Satsuma until August 2018. I think this break in borrowing was substantial enough to say that loan 7 was the start of a new lending chain and so I have considered loan 7 as the first loan in that new lending chain.

Before the remaining loans were provided information about Mr F's income and expenses was gathered. Having looked at the repayment amounts – and aggregating these where previous loans were still outstanding – and comparing these to Mr F's declared income and factoring in Mr F's borrowing history, I find these checks were reasonable in regard to loans 7, 8 and 9. The checks showed that these loans were affordable and so I do not find I can say they shouldn't have been provided.

The final loan, loan 10, was for a much larger amount and was repayable over a longer term. Given this was the fourth loan in this lending chain and the repayments required, I find that further checks should have been carried out to ensure this loan was sustainably affordable. Mr F said that he would provide copies of his bank statements, but I haven't received these. I have looked through the credit report that Mr F provided and considering the information contained from around the time of this loan I do not find I have enough to say that Satsuma should have been reasonably aware that the loan wasn't sustainably affordable. Therefore, in this case, I do not find I have enough evidence to say this loan shouldn't have been provided.

### **Putting things right**

In deciding what redress Satsuma should fairly pay in this case I've thought about what might have happened had it not lent Mr F loan 6.

Clearly there are a great many possible, and all hypothetical, answers to that question.

For example, having been declined this lending Mr F may have simply left matters there, not attempting to obtain the funds from elsewhere – particularly as a relationship existed between him and this particular lender which he may not have had with others. If this wasn't a viable option, he may have looked to borrow the funds from a friend or relative – assuming that was even possible.

Or, he may have decided to approach a third-party lender with the same application, or indeed a different application (i.e. for more or less borrowing). But even if he had done that, the information that would have been available to such a lender and how they would (or ought to have) treated an application which may or may not have been the same is impossible to now accurately reconstruct. From what I've seen in this case, I certainly don't think I can fairly conclude there was a real and substantial chance that a new lender would have been able to lend to Mr F in a compliant way at this time.

Having thought about all of these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Mr F would more likely than not have taken up any one of these options. So, it wouldn't be fair to now reduce Satsuma's liability in this case for what I'm satisfied it has done wrong and should put right.

Therefore, I find that Provident Personal Credit Limited trading as Satsuma should:

- refund the interest, fees and charges on loan 6 along with 8% simple interest\* on the individual payments made by Mr F from the date the payments were made to the date the complaint is settled.
- remove any adverse information recorded on Mr F's credit file in relation to loan 6.

\*HM Revenue & Customs requires you to deduct tax from this interest. Satsuma should give Mr F a certificate showing how much tax its deducted, if he asks for one.

### **My final decision**

My final decision is that I partially uphold this complaint. Provident Personal Credit Limited should take the actions set out above in resolution of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr F to accept or reject my decision before 19 February 2021.

Jane Archer  
**Ombudsman**