

The complaint

Mrs C complains that Provident Personal Credit Limited trading as Satsuma was irresponsible in its lending to her

What happened

Mrs C was provided with a loan for £800 by Satsuma in August 2018. The loan was repayable over six monthly instalments of around £253 each.

Mrs C says that the loan was irresponsibly lent. She said that Satsuma didn't carry out sufficient checks to ensure she could afford to repay the loan and that her credit file and bank statements showed it wasn't affordable. She says the loan resulted in her entering a spiral of debt.

Satsuma says that all applications go through credit and affordability checks. These include a credit risk assessment based on internal scorecards incorporating credit bureau data and an affordability assessment based on the information provided by the consumer and other external data. It says that based on its assessment the loan was affordable to Mrs C.

Our adjudicator didn't uphold this complaint. She said that based on the loan amount, what was apparent about her circumstances at the time and her history with the lender, it wouldn't be proportionate to say that Satsuma was required to ask for the information required to show the loan was unsustainable.

Mrs C didn't accept our adjudicator's view. She said that she underestimated her expenses in order to receive the loan and that had the information been verified this would have been realised. She said that if adequate checks had been carried out Satsuma would have seen she couldn't afford the loan and she noted that she was in an individual voluntary arrangement (IVA) at the time of the loan.

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 Mrs C could repay the loan 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 Mrs C could sustainably repay her loan - 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 the arguments, evidence and information provided in this context and what this all means for Mrs C's complaint.

Mrs C was provided with one loan by Satsuma and I have considered the checks that were carried out in this context. Before the loan was provided information about Mrs C's income and expenses was gathered. I note Mrs C's comments about underestimating the expenses, but I do not find it unreasonable (as this was the first loan) that Satsuma would have relied on the information she had provided - subject to this not raising concerns. Having looked through the income and expenses information I do not find this should have raised concerns that would have required further investigation and I note the additional checks Satsuma undertook to ensure the expenses were reasonable.

Mrs C has explained that she was in an IVA at the time of the loan and that her credit file showed that she wouldn't be able to afford the repayments. While I note the points she has made, I must consider whether the checks carried out by Satsuma were proportionate and whether based on these checks it was reasonable for the loan to be provided. Satsuma has explained that it checked Mrs C's income and expenses and while credit information is noted it appears this check was to ensure the income and expenses information was reasonable. I haven't seen further details of the results of Satsuma's credit checks and therefore I can't say if it was aware of the IVA.

Even if the IVA did show on Satsuma's credit checks, I have considered whether this meant the loan shouldn't have been provided. It would need to be taken into account but as the IVA was entered in June 2014, more than four years before this loan was provided I do not find that this alone meant the loan shouldn't have been provided.

Overall, while I can understand why Mrs C says the loan shouldn't have been provided, in this case I find the checks carried out by Satsuma were reasonable as this was the first loan. These checks suggested the loan was affordable and while I appreciate the additional information Mrs C has provided regarding her situation, in this case I do not find that I have enough to say that this loan shouldn't have been provided and so I do not find I can uphold this complaint.

My final decision

My final decision is that I do not uphold this complaint against Provident Personal Credit Limited.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mrs C to accept or reject my decision before 2 March 2021.

Jane Archer
Ombudsman