

The complaint

Miss I complains that Provident Personal Credit Limited, trading as Satsuma, lent to her irresponsibly.

What happened

Using information from Satsuma here is a brief loan table for the approved loans.

Loan	Date Taken	Date Repaid	Instalments	Amount	Highest Repayment
1	20/12/2018	22/02/2019	6	£1,000.00	£316.00
2	05/03/2019	Active	12	£2,000.00	£332.00

Satsuma wrote to Miss I in its final response and did not think it had lent to her irresponsibly. Ms I disagreed and referred her complaint to this service, where one of our adjudicators looked at it. He thought that Satsuma had done proportionate checks and did not think that it needed to do more.

The complaint remained unresolved and was passed to me for a decision. I issued a provisional decision on 1 December 2020 in which I provisionally decided to uphold Loan 2. My provisional findings are set out in the next section of this final decision.

The date for the parties to respond by was 15 December 2020. Miss I has agreed with my provisional decision. Satsuma has said it wishes me to listen to a telephone recording. The new deadline given to Satsuma to provide this recording was 11 January 2021. That has not been sent to us.

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 have set out our general approach to complaints about short-term lending - including all the relevant rules, guidance and good industry practice - on our website.

My provisional decision findings

Satsuma needed to take reasonable steps to ensure that it did not lend irresponsibly. In practice this means that it should have carried out proportionate checks to make sure Miss I could repay the loans in a sustainable manner.

These checks could include several different things, such as how much was being lent, the repayment amounts and the consumer's income and expenditure. 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: where a

customer's income is particularly low; where the repayments are particularly high; and/or where the frequency of the loans and the length of time over which a customer has been given loans need to be looked at: repeated refinancing could signal that the borrowing had become, or was becoming, unsustainable.

Satsuma was required to establish whether Ms I could sustainably repay her loans – not just whether the loan payments were affordable on a strict pounds and pence calculation. 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 the ability to repay without undue difficulties. The customer should be able to make repayments on time, while meeting other reasonable commitments, and 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 will not be able to make their repayments sustainably if they need to borrow further in order to do that.

I have carefully considered all the arguments, evidence and information provided in this context and what this all means for Miss I's complaint.

In relation to Loan 1, as Miss I was a new customer to Satsuma I'd expect it to be able to rely on the information Miss I gave to it when she applied. I have received a brief summary of those figures plus the reviews Satsuma carried out which led to it increasing the expenditure figures for the purposes of assessing the loan application and Miss I's ability to afford the monthly repayments for Loan 1. These were proportionate for a six month instalment loan when Miss I had applied to Satsuma for the first time.

So, I am not planning to uphold Miss I's complaint about Loan 1.

Different circumstances were in play in relation to Loan 2. Miss I told us that she called Satsuma to repay Loan 1 early, and during the call the representative asked her where the money had come from. Miss I reports that she had said to that Satsuma representative she had borrowed again to repay Loan 1. Borrowing to repay existing debt is a clear sign of unsustainability and ought to have alerted Satsuma to carry out further checks when Miss I returned for a second loan soon afterwards.

In addition to the above point, Miss I was asking for twice as much money as she had for Loan 1, and the agreement was that Loan 2 was to be repaid over twice as long. So, I would have expected to see Satsuma carry out a full financial review into Miss I's financial situation as part of its creditworthiness assessment.

A summary of the credit search data sent to us by Satsuma for Loan 2 shows me that it knew Miss I had just opened a new account. If Satsuma had done some research on that it would have appreciated that was Miss I's new loan with another lender to consolidate debts. This was a guarantor loan for £3,980 taken on 16 January 2019.

A different credit bureau was used for Loan 2 to the one used for Loan 1, and Miss I's application was recorded as a 'decline'. And the specific outcome reason given was 'IC-Number of Primary Checks'. From reading Satsuma's account notes it seems that related to identification and was resolved. The records show that the Loan 2 application was passed and funded.

A full financial review would have been justified for several reasons, including the 'decline' record but mainly because Miss I had repaid Loan 1 early, and come back a week later for double the amount, and had taken a large loan just a few days earlier. Her indebtedness was going to be extended for a further 12 months. One way – not the only way – to carry out a full financial review, can be to review an applicant's bank statements.

Miss I has sent to us her bank account statements and I have reviewed the ones from the new year in 2019 onwards in the lead up to Miss I's application for Loan 2. I've done that to see what Satsuma was likely to have seen if it had carried out a deeper financial analysis, and which I think it ought to have done.

These statements show me that there's increased reliance by Miss I on the running account credit arrangement she had with a well-known lender of that sort of credit. She regularly was repaying it over £1,000 a month and was drawing down again on that credit facility soon after repaying the account. Her bank account was in overdraft much of the time.

I wrote to Miss I to ask her about the credit of £3,980 on 16 January 2019 and she confirmed it was the guarantor loan crediting her account through the guarantor. On 19 January 2019 Miss I used this to repay a large payday loan of £978, that month's balance on the running account credit debt I referred to earlier and a credit agreement balance.

Miss I raised the point that she had entered '£300' for her rent or mortgage for Loan 2 and some enquires would have shown that she was paying rent. Miss I has told us it was £700 a month and her bank statements confirm this.

These outgoings plus the statements show evidence of existing regular credit commitments which had to be repaid too.

All these points and information lead me to think that the full financial review was not carried out by Satsuma, and if it had it would have appreciated that Miss I was likely to find it difficult to repay this loan over a 12 month period.

On the evidence I have now, I am planning to uphold Miss I's complaint for Loan 2 and direct that Satsuma puts things right for that loan.

Miss I has referred to other points which I address here so that Miss I appreciates I have considered them all. One is that she was made redundant in late February 2019 and it's not likely that Satsuma would have known that, or discovered it, unless Miss I had chosen to tell it. So, it might have been the case that Miss I volunteered that information if a Satsuma representative had asked her – but it's not necessarily the case this would have happened. So, I would not have expected Satsuma to have known she was on the verge of being made redundant.

Miss I has confirmed that a credit to her account in late February 2019 was a combination of income plus redundancy monies from her employer. Any creditworthiness assessment would not have been able to treat the redundancy money part of that as a regular payment but a one-off payment.

Miss I has referred to a health issue in 2018 but I've received no specific information or evidence of that and it's not likely that Satsuma would have known this unless Miss I had volunteered it. And reviewing the account notes which can help to determine the relationship between Miss I and Satsuma, there's nothing I can see which was likely to have alerted Satsuma to this health issue before the approval of either loan. So, whilst empathetic, I don't think it's something that would have altered the loan approval decisions. I think it's more likely than not that Satsuma neither knew about it, nor was likely to have known about it.

What the parties have said

Miss I has accepted my provisional findings and has said she has nothing to add.

Satsuma has referred to that part of my provisional decision where I have said that Miss I reported to us the funds to repay Loan 1 early came from additional borrowing. Satsuma says it has a recorded call which demonstrates a different story.

Satsuma has said:

“Loan 1 was repaid in full on 22/02/2019 via telephone call, the customer confirmed with the operator that the early settlement was affordable and the funds had come from a bonus, and not borrowed again as noted. The customer then applied for loan 2 on 05/03/2019. I have requested a copy of the relevant call recording of the conversation, which I will arrange to be sent across once this has been retrieved.”

Satsuma has not sent us that recording and I have chosen to proceed with the final decision because:

- Satsuma has had time to send additional evidence to us. The first reply date deadline was 15 December 2020 then 11 January 2021. And now it's been about six weeks after I issued my provisional decision on 1 December 2020, and I need to be fair to both parties. I do not think it fair to Miss I that I wait longer;
- I have a summary of what Satsuma has said the telephone call reveals and so I have factored that in to my review of the complaint;
- As I have two stories about what was said when Miss I telephoned to repay Loan 1 early, then neither can be totally relied upon and so I have looked to other evidence when making my final decision.

I have decided that whether Miss I told Satsuma the money to repay Loan 1 early was from other borrowing or a bonus I don't think that it would make a difference to the outcome I reached in my provisional decision. What I consider ought to have been the appropriate and proportionate checks when Miss I reapplied for Loan 2 has not altered taking into account all the evidence I have.

And I say this because a full financial review would have been justified for several reasons, but mainly because Miss I had repaid Loan 1 early, and come back a week later for double the amount, and had taken a large guarantor loan just a few days earlier. And that guarantor loan was one Satsuma knew about. Miss I's indebtedness was going to be extended for a further twelve months and so more should have been discovered about her situation and why she was coming back for more money.

And I have set out in my provisional decision what I think a full financial review likely would have revealed to Satsuma had it carried one out. I repeat all my provisional findings here in my final decision.

Having reviewed the evidence my decision is the same – I uphold Miss I's complaint in relation to Loan 2.

Putting things right

In deciding what redress Satsuma should fairly pay in this case I've thought about what might have happened had it stopped lending to Miss I at Loan 2, as I'm satisfied it ought to have. Clearly there are a great many possible, and all hypothetical, answers to that question.

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

Or, they 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 they 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 Miss I 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 Miss I 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.

Because Satsuma should not have given Miss I Loan 2, it's not right that Miss I should have to pay interest or charges on it or have it affect her credit file in a negative way. I direct Satsuma does as follows:

- refund any interest and charges already paid by Miss I in respect of Loan 2; and
- apply 8% simple interest per year to any interest and charges refunded from the date they were paid to the date of settlement*;
- remove any adverse payment information about Loan 2 from Miss I's credit file.

If Miss I still owes Satsuma any of the principal balance she borrowed on loan 2, instead of the above, Satsuma should remove all the interest and charges applied to the outstanding balance. It should then re-work the account as if all payments made by Miss I went to towards the principal. But importantly, Satsuma needs to make sure that Miss I doesn't repay more than the principal amount borrowed.

If after doing this Miss I hasn't repaid the principal she borrowed Satsuma can deduct this from the remainder of the compensation. If, Miss I has already paid enough to repay the principal then any overpayment should be refunded to her with 8% simple* interest from the date of payment to the date of settlement.

And if Satsuma no longer owns this debt, and it wants to make a deduction due to the amount owed, then it should buy it back. If it doesn't then it isn't entitled to make any deductions for it from the amount it needs to pay Miss I.

*HM Revenue & Customs requires Satsuma to take off tax from this interest and it must give Miss I a certificate showing how much tax it's taken off if she asks for one. If Satsuma intends to apply the refund to reduce any outstanding capital balance, it must do so after deducting the tax.

My final decision

My final decision is that I uphold Miss I's complaint in part and direct that Provident Personal Credit Limited, trading as Satsuma, does as I have outlined above.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss I to accept or reject my decision before 10 February 2021.

Rachael Williams
Ombudsman

