DRN-2537923

Financial Ombudsman Service

## The complaint

Mr N complains that Provident Personal Credit Limited (trading as Satsuma Loans) was irresponsible to lend to him.

## What happened

Mr N was approved for ten loans from Satsuma between May 2016 and October 2016 as follows:

| Loan | Date | Amount | Term | Monthly Repayment | Due | Repaid |
|---|---|---|---|---|---|---|
| 1 | 13 May 2016 | £1,000 | 13w | £477.01 | 12 Aug 2016 | Withdrew 14 May 2016 |
| 2 | 18 May 2016 | £600 | 13w | £286.22 | 18 Aug 2016 | Withdrew 18 May 2016 |
| 3 | 23 May 2016 | £600 | 13w | £286.22 | 26 Aug 2016 | Withdrew 23 May 2016 |
| 4 | 31 May 2016 | £1,000 | 34w | £253.63 | 27 Jan 2017 | 21 Jun 2016 |
| 5 | 1 Jul 2016 | £1,000 | 39w | £221.13 | 6 Apr 2017 | Withdrew 13 Jul 2016 |
| 6 | 13 Jul 2016 | £1,000 | 52w | £165.84 | 17 Jul 2017 | Withdrew 16 Jul 2016 |
| 7 | 4 Oct 2016 | £1,000 | 52w | £165.84 | 9 Oct 2017 | Withdrew 5 Oct 2016 |
| 8 | 5 Oct 2016 | £800 | 52w | £132.69 | 10 Oct 2017 | Withdrew 10 Oct 2016 |
| 9 | 15 Oct 2016 | £1,000 | 52w | £165.84 | 18 Oct 2017 | Withdrew 15 Oct 2016 |
| 10 | 21 Oct 2016 | £1,000 | 39w | £221.13 | 25 Jul 2017 | Withdrew 22 Oct 2016 |

Mr N says he could not afford the repayments. He says he'd been dependent on short-term loans to pay everyday expenses since 2012 and was in severe financial difficulty. Mr N says if Satsuma had checked his credit file it would have seen the other loans and also four credit cards at their limit. He adds that he was charged £990.02 interest on loan 4, even though he repaid it within 21 days and that Satsuma should also have realised something was wrong due to the number of loan agreements from which he withdrew. Mr N says he ended up seeking help from a debt charity.

Satsuma says it conducted a credit check and asked Mr N about his income and expenditure. It says it used a wide range of data sources to ensure it had the most up-to-date information about Mr N's circumstances. It says its checks caused it to reduce Mr N's declared disposable income by between £500 and £1,200 but it still showed each loan was affordable.

Our adjudicator recommended the complaint should be upheld in part. She found that by loan 7, Mr N's pattern of borrowing suggested he'd become persistently reliant on short-term loans. She recommended that all interest and charges on loans 7 to 10 should be refunded to Mr N (plus 8% simple interest) and that the loans should be removed from Mr N's credit file.

Mr N responded to say, in summary, that loans 4 to 6 should be upheld, as well as loans 7 to 10. He says loan 4 was the fourth application in one month and better checks would have shown he was using one loan to pay another. Mr N added that an ombudsman has already confirmed he was dependent on short-term loans when reviewing other cases he had with this service.

**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 N 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 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 N 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 the arguments, evidence and information provided in this context and what this all means for Mr N's complaint.

Loan 1

When Mr N applied for his first loan, I can see Satsuma asked him about his income and expenditure and applied its own safeguards based on electronic information gathered from credit agencies and internal models. Mr N had declared his disposable income to be £2,580, but Satsuma adjusted that figure down to less than £1,600. Despite the adjustment, I'm satisfied Satsuma would have found the repayments on loan 1 to be affordable and I can't conclude it needed to carry out any further checks based on the information it had.

Loans 2 and 3

As Mr N withdrew from these loans on the same day he was approved, he didn't incur any interest or charges, so I won't consider these further.

Loan 4

Loan 4 was taken out eight days after Mr N had withdrawn from loan 3. Satsuma carried out the same checks it did for the first loan and this resulted in Mr N's declared disposable income being adjusted down from £2,580 to £1,551.83. I consider the checks were proportionate to the circumstances of the lending. I say that because:

- The scheduled repayment was less than 9% of Mr N's declared income;
- The repayments were lower than any of the three previous loans;
- There was nothing in Mr N's borrowing history with Satsuma to suggest he was struggling financially;
- Satsuma's calculations indicated the repayments were comfortably affordable to Mr N.

I acknowledge Mr N says he was charged £990.02 interest on this loan, even though he'd repaid it within 21 days. However, this was not the case. Although £990.02 was the contracted interest on the loan, Mr N actually paid £302.56 interest as the remaining £687.46 was a rebate for early repayment.

So, I don't consider Satsuma was irresponsible to have approved loan 4 and I find the interest charged took into account the early repayment.

Loans 5 and 6

By the time Mr N applied for his 5th loan in quick succession, I'd have expected Satsuma to have a more complete picture of his financial circumstances. I consider a proportionate check should have included verifying the information Mr N had provided. Mr N hasn't been able to provide his bank statements from the time, but he has sent in the analysis carried out by the debt charity in October 2016 and I've seen a recent copy of his credit file. So I've used those as a reasonable proxy for what a proportionate check may have shown Satsuma:

- Mr N's declared income of £2,900 corresponds to the figure I've seen on the debt charity's analysis of Mr N's circumstances;
- Based on the breakdown Mr N shared with the debt charity, I think it's likely Satsuma would have found Mr N's regular expenditure (excluding credit) was around £1,400;
- I can see from Mr N's credit file that he had five active credit cards and a mail order account in July 2016. The combined minimum payments on those were around £700;
- Mr N's payment record on all his accounts was good in July 2016;
- There are no outstanding short-term loans on Mr N's credit file in July 2016;
- Mr N was overdrawn by about £3,000 in his current account, although that was within his £4,000 limit;

So, I think it's likely that Satsuma would have found Mr N had a disposable income of around £800 - lower than the £1,300 to £1,400 it calculated for loans 5 and 6. I can't see there are any indications that Mr N was struggling to manage his money though and I find that it's likely Satsuma would still have considered the repayments to be affordable even at this lower level of disposable income.

In summary, I'm satisfied Satsuma would not have made a different lending decision, even after proportionate checks, so I can't conclude it was wrong to have approved loans 5 and 6.

<u>Loans 7 to 10</u>

I've also looked at the overall pattern of Satsuma's lending history with Mr N, with a view to seeing if there was a point at which Satsuma should reasonably have seen that further lending was unsustainable, or otherwise harmful. And so Satsuma should have realised that it shouldn't have provided any further loans.

Given the particular circumstances of Mr N's case, I think that this point was reached by loan 7. I say this because:

- This was Mr N's seventh loan in fewer than five months;
- Shortly before loan 7, Mr N opened three more credit accounts and quickly increased his debt levels:
    - He took out a loan for over £20,000 in July 2016;
    - He took out two new credit cards in July and August 2016 and the combined balance on them was over £7,000 by October 2016;
- Mr N could not afford this new level of repayments from his disposable income.

I think that Mr N lost out because Satsuma continued to provide borrowing from loan 7 onwards because:

- these loans would have had the effect of unfairly prolonging Mr N's indebtedness by allowing him to take expensive credit intended for short-term use over an extended period of time;

- the sheer number of loans was likely to have had negative implications on Mr N's ability to access mainstream credit and so kept him in the market for these high-cost loans.

I acknowledge that Mr N says this service has already confirmed he was dependent on short-term loans, in its response to other cases, but I must consider each case based on its own merits and the circumstances at the time of the lending. In this case, I haven't seen any evidence that Mr N was in a cycle of short-term lending at the time, but I do find that, by loan 7, his pattern of borrowing should have indicated to Satsuma that further lending may have been unsustainable.

So I am upholding Mr N's complaint about loans 7 to 10 and Satsuma should put things right.

**My final decision**

My decision is that I uphold this complaint in part.

In deciding what redress Satsuma should fairly pay in this case I've thought about what might have happened had it not lent to Mr N, as I'm satisfied should have been the case for the later loans.

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

For example, having been declined this lending Mr N may have simply left matters there, not attempting to obtain the funds from elsewhere. 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, Mr N 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, over a different time period). 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 Mr N in a compliant way from October 2016 onwards.

Having thought about all of these possibilities, I'm not persuaded it would be fair or reasonable to conclude that Mr N 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.

So, Provident Personal Credit Limited (trading as Satsuma Loans) should:

A. Add together the total of the repayments made by Mr N towards interest, fees and charges on loans 7 to 10;

B. Calculate 8% simple interest* on the individual payments made by Mr N which were considered as part of “A”, calculated from the date Mr N originally made the payments, to the date the complaint is settled;
C. Pay Mr N the total of “A” plus “B”;
D. The overall pattern of Mr N’s borrowing for loans 7 to 10 means any information recorded about them is adverse, so Satsuma should remove these loans entirely from Mr N’s credit file.

*HM Revenue & Customs requires Satsuma to take off tax from this interest. Satsuma must give Mr N a certificate showing how much tax it’s taken off if he asks for one.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mr N to accept or reject my decision before 12 March 2021.
Amanda Williams
**Ombudsman**