

The complaint

Mr C firstly complains about four loans that he took out with Provident Personal Credit Limited, trading as Satsuma Loans, ("SL"), which he said were unaffordable. He is also unhappy that SL applied a default to his credit file.

What happened

Mr C was given four instalment loans by SL from December 2017 to November 2018. A summary of the loans taken out by Mr C is shown below:

Loan number	Date of loan	Repayment date	Loan amount	Number of monthly repayments
1.	17/12/17	2/4/18	£150	3
2.	5/2/18	30/9/18	£450	5
3.	16/4/18	3/8/18	£110	3
4.	6/11/18	27/11/19	£400	3

Mr C said that he had multiple loans which he couldn't afford, and SL continued to lend. He said that paying SL each month left him with too little money, so he had to keep borrowing to get through the next month. SL should have realised from the number of times he borrowed that his debt problems were getting worse. His credit reports would have shown all his other debts and problems including late payments, defaults and debt management. He had previously failed to pay other loans and SL continued to lend to him and he had other payday loans he was struggling with.

Mr C is also unhappy that SL applied a default to his credit file on Loan 4, which he was not aware of as he did not receive any notification of this. His preferred contact method was by email. He would like the default to be removed from his credit file as he has paid the debt and his mental health has suffered because of it. He is also seeking a refund of interest and any charges he paid, plus statutory interest.

In its final response letter, SL said that it had asked Mr C on each of his loans for details of his income and outgoings. It also used details from a credit file search to make sure that it had a full understanding of Mr C's existing credit commitments. Where this check indicated that Mr C had a higher level of expenditure than the amount he'd declared, it used the higher figure to ensure that it did not underestimate his outgoings. SL also used its checks to increase Mr C's other outgoings so that they better reflected someone in his circumstances. SL also said that it used the income Mr C had declared to check that he could afford the cost of the new loan and his existing commitments and that he would still have some disposable money remaining to cover any additional expenses he might incur whilst he was repaying his loans.

SL said that the fact that Mr C's disposable income on each loan was sufficient, even after it had increased his outgoings and included his loan repayments, suggested that the decision to lend was responsible and that the loans would be affordable for Mr C. SL also said it was confident it did everything that could reasonably be expected of it to ensure that when it lent to Mr C, it was responsible to do so and that the loans would be affordable for him.

With regard to the default, SL said that Mr C had agreed to repay Loan 4 by three monthly instalments of around £197 from 1 January 2019 to 1 March 2019. But the first payment it received was £50 on 28 February 2019. Mr C had then contacted it on 4 March 2019 to explain that he had difficulties, but he was looking to start repaying the loan. SL then suspended any collections contact for 30 days to give Mr C the opportunity to speak with a free money advice company. But SL received no further contact from Mr C, and it issued a Notice of Default on 9 May 2019. The notice was sent to the address Mr C had provided in his loan application. The notice gave Mr C 28 days to get in contact with SL to prevent further action from being taken. The letter explained that should Mr C fail to do this, SL would send the account for debt collection and also register a default with the credit agencies. The default was then registered on 28 August 2019. Although Mr C had settled the loan in November 2019, SL said that as the default has been recorded correctly and it accurately reflected his payment history, it would remain on his credit file.

Our adjudicator's view

The adjudicator didn't recommend that Mr C's complaint should be upheld. With regard to Loans 1 to 3, she said that there wasn't anything in the information Mr C had provided or the information SL should've been aware of, which meant it would've been proportionate to start verifying what Mr C was saying. With regard to Loan 4, she thought SL should've taken steps to build a more detailed picture of Mr C's financial situation. But she hadn't seen anything in the information provided which suggested SL would've known that Mr C wouldn't have been able to sustainably make the repayments for Loan 4.

With regard to the default, the adjudicator noted that Mr C had contacted SL in March 2019 to tell it that he was struggling to keep up with his repayments. She could see that SL had put his account on hold and that it had asked Mr C to get back in touch with it. From the information she had seen, she couldn't see that Mr C had got back in touch with SL, but she said that she would be happy to consider any further information Mr C had. The adjudicator noted that Loan 4 wasn't repaid until November 2019. She couldn't say that SL was wrong to register the default.

Mr C disagreed. He said that the lending was unfair, and he was unhappy about the default SL had put on his credit file.

SL didn't provide a response to the adjudicator's view.

As this complaint hadn't been resolved informally, it was passed to me, an ombudsman, to investigate.

my provisional decision

After considering all the evidence, I issued a provisional decision on this complaint to Mr C and to SL on 31 December 2020. I summarise my findings:

I'd noted that when SL lent to Mr C the regulator was the Financial Conduct Authority and relevant regulations and guidance included its Consumer Credit Sourcebook (CONC). The CONC contained guidance for lenders about responsible lending.

CONC said that a lender needed to check that a consumer could afford to meet his repayments in a sustainable manner. This meant a consumer being able to meet his repayments out of his normal income without having to go without or borrow further.

The regulations weren't prescriptive about what checks SL needed to carry out in order to reasonably assess whether or not Mr C would be able to meet his repayments sustainably. But the regulations said that such checks needed to be proportionate. This suggested that the same checks might not be the appropriate thing to do for all consumers, or for the same consumer in all circumstances.

In general, I'd expect a lender to require more assurance the greater the potential risk to the consumer of not being able to repay the credit in a sustainable way. So, for example, I'd expect a lender to seek more assurance by carrying out more detailed checks

- 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 might signal that the borrowing had become, or was becoming, unsustainable).

As I'd set out above, SL had made a number of checks before it lent to Mr C. It had asked him for details of his monthly income and expenditure. Mr C had declared his monthly income as between £1,650 and £2,088 and his expenditure as between £885 and £935. SL had also added a safeguard amount to the expenditure declared by Mr C to reflect the information it had seen on its credit and internal checks and it added a further buffer for expenses.

SL had also said that it checked Mr C's credit file before agreeing to the loans. SL had provided this service with a summary of its credit checks for Loans 2 to 4.

I'd noted that although the amounts that Mr C needed to repay each month were smaller than if he'd taken a normal payday loan, he was also committing to making those repayments over a longer period. In addition, Mr C sometimes had a number of loans outstanding at the same time. So, I'd considered the total amount that Mr C needed to repay to SL each month.

Loan 1 was for £150 and was repayable by three monthly repayments. The highest monthly repayment was around £74.

I'd thought about whether SL's checks were proportionate for Loan 1. I could see that the information Mr C gave SL about his income and expenses indicated that the loan repayments were affordable. And I didn't think the repayment amounts on Loan 1 were so large that it was obvious they would've caused Mr C financial difficulty.

I thought that the checks SL had carried out before agreeing Loan 1 were proportionate. And given Mr C's repayment amounts and that this was his first loan with the lender, I didn't think it would've been proportionate for SL to have asked him for the amount of information that would have been needed to show the lending was unsustainable. So, I didn't think SL was wrong to give Loan 1 to Mr C.

I could see that Loan 2 was taken out whilst Loan 1 was still outstanding. Loan 2 was for the higher amount of £450 repayable by five monthly repayments of around £158. But as Loan 1 was still outstanding, total monthly repayments of around £232 for both loans were due. SL's credit checks showed that Mr C had no active accounts in arrears. I noted that Mr C's adjusted monthly disposable income was just £72.77. But I could see that was after SL had applied its prudent safeguards and buffers to Mr C's declared expenditure.

Loan 2 was still outstanding when Mr C took out Loan 3. The loan amount had reduced to £110 and was repayable over three monthly repayments. Loan 1 had been repaid by that time. The total monthly repayments for Loans 2 and 3 were around £213. SL's credit checks again showed that Mr C had no active credit accounts in arrears. I'd noted that Mr C's adjusted monthly disposable income was around £80. But again, I could see that was after SL had applied its prudent safeguards and buffers to Mr C's declared expenditure.

Overall, given Mr C's repayment amounts, and what was apparent about his circumstances at the time, I didn't think it would've been proportionate for SL to have asked him for the amount of information that would have been needed to show Loans 2 and 3 were unsustainable.

And I didn't think there was anything in the information Mr C had provided or the information SL should've been aware of, which meant it would've been proportionate to start verifying what he was saying. So, I didn't think SL was wrong to give Loans 2 and 3 to Mr C.

By the time Mr C had applied for Loan 4, I could see that he'd made late repayments on his first three loans. I could see that Mr C had made his last repayment on Loan 1 a day late. But he'd made all four of his last four monthly repayments on Loan 2 substantially later than they were due and the loan was repaid around two months later than the due date. And whilst Loan 3 was repaid a day late, two of the repayments were repaid much later than the contractual repayment dates.

Mr C had applied for Loan 4 a little more than a month after Loan 2 was repaid and the loan amount was almost four times more than his previous loan. But I thought the fact that Mr C had numerous difficulties repaying Loans 2 and 3 was likely to be an indication that further lending would be unsustainable and there was a real risk that Mr C wasn't going to be able to sustainably repay Loan 4 and the potential difficulties or adverse consequences for him. So as a responsible lender, I didn't think SL should have agreed to give Loan 4 to Mr C. And I intended to say that SL should put things right as shown below.

In deciding what redress SL should fairly pay in this case I'd thought about what might have happened had it stopped lending to Mr C from Loan 4, as I was satisfied it ought to have.

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

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

Or, he might 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 might or might not have been the same was impossible to now accurately reconstruct. From what I'd seen in this case, I certainly didn't

think I could fairly conclude there was a real and substantial chance that a new lender would have been able to lend to Mr C in a compliant way at that time.

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

Mr C's credit file

I noted that Mr C was unhappy that SL had applied a default to his credit file. He'd said that the default notice should have been sent by email. But I was aware that such notices should be sent by post. SL said that the notice was sent to the address Mr C gave in his loan application. I could see Mr C had told SL in June 2020 that he'd left that address in August 2019. So, he still lived there when the notice was sent to him in May 2019. I could also see that Mr C had failed to make the three loan repayments for Loan 4 on the contractual dates.

But I'd said that generally speaking, I'd have expected a lender to remove any adverse information recorded on a consumer's credit file as a result of a loan they shouldn't have been given. I saw no reason to depart from our typical approach in this case. So, I thought that SL should remove any adverse information recorded on Mr C's credit file in relation to Loan 4, including the default.

So, subject to any further representations by Mr C or SL, my provisional decision was that I intended to uphold this complaint in part. I intended to order SL to put things right as follows.

Putting things right – what SL needs to do

SL should:

- a) refund the interest and fees Mr C paid for Loan 4;
- b) pay interest on these refunds at 8% simple* per year from the dates of payment to the dates of settlement;
- c) remove any adverse information about Loan 4 from Mr C's credit file.

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

Mr C responded to my provisional decision to say that he was happy with my provisional decision and he had nothing else to add.

SL hasn't provided a response to my provisional decision.

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.

Given that Mr C and SL have given me nothing further to consider, I see no reason to depart from the conclusions I reached in my provisional decision. It follows that I uphold part of the

complaint and require SL to pay Mr C some compensation and take the steps as set out below.

My final decision

My decision is that I uphold this complaint in part. In full and final settlement of this complaint, I order Provident Personal Credit Limited, trading as Satsuma Loans, to:

1. Refund the interest and fees Mr C paid for Loan 4;
2. Pay interest on these refunds at 8% simple* per year from the dates of payment to the dates of settlement; and
3. Remove any adverse information about Loan 4 from Mr C's credit file.

*HM Revenue & Customs requires SL to take off tax from this interest. SL must give Mr C 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 C to accept or reject my decision before 2 March 2021.

Roslyn Rawson

Ombudsman