

The complaint

Mr A says Provident Personal Credit Limited (trading as Satsuma) irresponsibly lent to him.

What happened

This complaint is about five instalment loans Satsuma provided to Mr A between December 2018 and May 2019. Mr A's borrowing history is as follows:

Loan	Date Taken	Date Repaid	Instalments	Loan Amount	Maximum Combined Repayment
1*	13/12/2018	22/12/2018	6	£300.00	£94.80
2	29/12/2018	01/01/2020	12	£800.00	£132.80
3*	26/02/2019	28/02/2019	3	£100.00	£182.00
4	10/03/2019	17/05/2019	3	£300.00	£280.40
5	16/05/2019	Outstanding	3	£100.00	£329.60

* Loans one and three were cancelled.

Our adjudicator upheld Mr A's complaint about loan 5 and said that loan shouldn't have been given. Mr A disagreed and said he didn't consider any of the loans should have been given. Satsuma agreed with the adjudicator's conclusions.

The complaint has been passed to me for a final 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.

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 A 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 consumer'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 A 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 relevant regulations define 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 A's complaint.

The adjudicator concluded that they hadn't seen enough to say it was unreasonable for Satsuma to arrange loans one to four for Mr A. I agree with those conclusions. The loans were arranged during the early part of the lending relationship, and loans one, three and four were for relatively small amounts.

Loan two was for a higher amount than loan one. But Mr A had withdrawn from loan one within a few days of taking it out. So I'm not persuaded that the increased amount for loan two meant that Satsuma had to carry out detailed checks of Mr A's finances before arranging that loan. From what I've seen, I think the information available to Satsuma meant it wasn't unreasonable for it to arrange loan two.

I think Satsuma ought to have done more before agreeing loan four and, for example, verified Mr A's financial information. Had it done so, Satsuma would've seen that Mr A had other open forms of longer term lending and some credit card debt. And even though Mr A had previously made use of short term lending, at the time he arranged loan four it seems he didn't have any other outstanding short term debt, other than his second loan with Satsuma.

So from what I've seen, even if Satsuma had carried out more detailed checks on Mr A's finances, I'm not persuaded there was enough evidence to suggest to the business that it wasn't appropriate to arrange loan four.

And so I'm not upholding Mr A's complaint about loans one to four.

When Mr A applied for loan five I think it would've been reasonable for Satsuma to verify what he'd told it about his income and outgoings. Had it done so, I think Satsuma would've

discovered that by that time Mr A had three other short term loans with other lenders, as well as loans two and four that remained open with Satsuma. He was also managing two long-term loans and three credit card debts. And with that knowledge, I think it would've been reasonable for Satsuma to conclude that loan five was unlikely to be sustainable for Mr A.

I've also looked at the overall pattern of Satsuma's lending history with Mr A, with a view to seeing if there was a point at which it 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.

Having done so, I'm not persuaded that the overall number of loans or the period of time over which they were taken meant there was a pattern that should've been of concern to Satsuma.

I'm upholding the complaint about loan five and Satsuma should put things right.

Putting things right – what Satsuma needs to do

In deciding what redress Satsuma should fairly pay in this case I've thought about what might have happened had it not given Mr A loan 5, 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 Mr A 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 A 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 A 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.

To put things right Satsuma should

- refund all interest and charges Mr A paid on loan five;
- pay interest of 8% simple a year on any refunded interest and charges from the date they were paid (if they were) to the date of settlement†;
- remove any negative information about loan five from Mr A's credit file.
- I understand there was an outstanding balance on loan five when Mr A brought his complaint to this Service. I don't know if that loan remains outstanding or if Mr A has since repaid it or it's been written off. If there are amounts remaining, Satsuma should remove any interest and charges that make up the balance, and treat the payments Mr A made as payments towards the capital amount. If Mr A has made

further payments, Satsuma should refund any payments above the original capital amount to Mr A, along with 8% per annum simple interest†.

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

My final decision

My decision is that I uphold Mr A's complaint in part. I direct Provident Personal Credit Limited (trading as Satsuma Loans) to pay Mr A compensation as set out above

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr A to accept or reject my decision before 8 April 2021.

Caroline Stirling

Ombudsman